

TOWN OF ASHBURNHAM, MASSACHUSETTS

Annual Financial Statements

For the Year Ended June 30, 2018

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
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INDEPENDENT AUDITORS' REPORT

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

To the Select Board
Town of Ashburnham, Massachusetts

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund (except for the Electric Enterprise Fund), and the aggregate remaining fund information (except for the Electric Other Post-Employment Benefits Trust Fund) of the Town of Ashburnham, Massachusetts, as of and for the year ended June 30, 2018, and the related notes to the financial statements which collectively comprise the Town's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

The Town's management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Ashburnham Municipal Light Plant (Electric Fund), a major enterprise fund, which collectively represent 34 percent and 76 percent respectively, of the assets and revenues of the Town's business-type activities. Also, we did not audit the financial statements of the Ashburnham Municipal Light Plant fiduciary funds, which collectively represent 13 percent and 3 percent respectively, of the assets and revenues of the Town's aggregate remaining fund information. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Ashburnham Municipal Light Plant enterprise fund, is based solely on the report of the other auditors.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Ashburnham, Massachusetts, as of June 30, 2018, (except for the Ashburnham Municipal Light Department, which is as of and for the year ended December 31, 2017), and the respective changes in financial position and, where applicable, cash flows thereof and the respective budgetary comparison for the general fund for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that Management's Discussion and Analysis, and the Pension and OPEB Schedules appearing on pages 57 to 60 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain

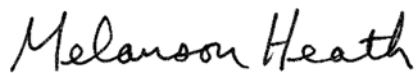
limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

The Management's Discussion and Analysis and Notes to Ashburnham Municipal Light Plant's financial statements can be found in the separate stand-alone financial statements.

Other Reporting Required by *Government Auditing Standards*

In accordance with *Government Auditing Standards*, we have also issued our report dated September 12, 2019, on our consideration of the Town's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Town's internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Town's internal control over financial reporting and compliance.

A handwritten signature in cursive script that reads "Melanson Heath".

September 12, 2019

MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Town of Ashburnham (the Town), we offer readers this narrative overview and analysis of the financial activities of the Town (except for the Ashburnham Municipal Light Plant, a major enterprise fund) for the fiscal year ended June 30, 2018.

A. OVERVIEW OF THE FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the basic financial statements. The basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements, and (3) notes to financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The government-wide financial statements are designed to provide readers with a broad overview of our finances in a manner similar to a private-sector business.

The statement of net position presents information on all assets and liabilities, and deferred outflows / inflows with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position is improving or deteriorating.

The statement of activities presents information showing how the Town's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions that are principally supported by taxes and intergovernmental revenues (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities include general government, public safety, education, public works, health and human services, and culture and recreation. The business-type activities include water, sewer, and electric activities.

Fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. Fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements. All of the funds can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

An annual appropriated budget is adopted for the general fund. A budgetary comparison statement has been provided for the general fund to demonstrate compliance with this budget.

Proprietary funds. Proprietary fund reporting focuses on the determination of operating income, changes in net position (or cost recovery), financial position, and cash flows. The proprietary fund category includes enterprise funds.

Enterprise funds are used to report activity for which a fee is charged to external users, and must be used when one of the following criteria are met: (1) activity is financed with debt that is secured solely by a pledge of the net revenues from fees and charges, (2) laws or regulations require the activity's costs of providing services be recovered with fees and charges, and (3) the pricing policies of the activity established fees and charges designed to recover its costs, including capital costs such as depreciation and debt service. The primary focus on these criteria is on fees charged to external users. Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements, only in more detail. Specifically, enterprise funds are used to account for water, sewer, and electric operations, which are considered major funds.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of those funds are not available to support the Town's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

Notes to financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

Other information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information which is required to be disclosed by accounting principles generally accepted in the United States of America.

B. FINANCIAL HIGHLIGHTS

- As of the close of the current fiscal year, the total of assets and deferred outflows exceeded liabilities and deferred inflows by \$36,811,141 (i.e., net position), a change of \$(1,495,190) in comparison to the restated prior year.
- As of the close of the current fiscal year, governmental funds reported combined ending fund balances of \$3,296,195, a change of \$(587,916) in comparison to the prior year.
- At the end of the current fiscal year, unassigned fund balance for the general fund was \$655,684, a change of \$(728,518) in comparison to the prior year.

C. GOVERNMENT-WIDE FINANCIAL ANALYSIS

The following is a summary of condensed government-wide financial data for the current and prior fiscal years (except for the Ashburnham Municipal Light Plant, a major enterprise fund):

<u>NET POSITION</u>						
	<u>Governmental Activities</u>		<u>Business-Type Activities</u>		<u>Total</u>	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Current and other assets	\$ 5,377,083	\$ 6,713,507	\$ 1,015,233	\$ 921,703	\$ 6,392,316	\$ 7,635,210
Capital assets	<u>41,463,239</u>	<u>42,442,273</u>	<u>23,301,631</u>	<u>24,163,283</u>	<u>64,764,870</u>	<u>66,605,556</u>
Total assets	46,840,322	49,155,780	24,316,864	25,084,986	71,157,186	74,240,766
Deferred outflows of resources	911,271	1,245,340	39,410	90,488	950,681	1,335,828
Current liabilities	2,078,554	2,524,163	721,174	692,857	2,799,728	3,217,020
Noncurrent liabilities	<u>28,320,895</u>	<u>26,175,657</u>	<u>3,618,425</u>	<u>4,283,391</u>	<u>31,939,320</u>	<u>30,459,048</u>
Total liabilities	30,399,449	28,699,820	4,339,599	4,976,248	34,739,048	33,676,068
Deferred inflows of resources	526,251	433,737	31,427	31,516	557,678	465,253
Net investment in capital assets	25,258,520	24,819,089	20,016,818	20,230,643	45,275,338	45,049,732
Restricted	1,375,506	1,893,914	-	-	1,375,506	1,893,914
Unrestricted	<u>(9,808,133)</u>	<u>(5,445,440)</u>	<u>(31,570)</u>	<u>(62,933)</u>	<u>(9,839,703)</u>	<u>(5,508,373)</u>
Total net position	\$ <u>16,825,893</u>	\$ <u>21,267,563</u>	\$ <u>19,985,248</u>	\$ <u>20,167,710</u>	\$ <u>36,811,141</u>	\$ <u>41,435,273</u>

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. At the close of the most recent fiscal year, total net position was \$36,811,141, a change of \$(1,495,190) in comparison with the restated prior year.

The largest portion of net position \$45,275,338, reflects our investment in capital assets (e.g., land, buildings, machinery, equipment, and infrastructure), less any related debt used to acquire those assets that is still outstanding. These capital assets are used to provide services to citizens; consequently, these assets are not available for future spending. Although the investment in capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

An additional portion of net position \$1,375,506 represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position reflect deficits of \$(9,808,133) (governmental) and \$(31,570) (business-type), primarily resulting from unfunded pension and other post-employment benefits (OPEB) liabilities (see Notes 16 and 17).

CHANGES IN NET POSITION

	Governmental Activities		Business-Type Activities		Total	
	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>	<u>2018</u>	<u>2017</u>
Revenues:						
Program revenues:						
Charges for services	\$ 1,158,386	\$ 901,800	\$ 1,491,996	\$ 1,548,401	\$ 2,650,382	\$ 2,450,201
Operating grants and contributions	546,206	550,186	20,416	62,907	566,622	613,093
Capital grants and contributions	343,471	345,504	-	-	343,471	345,504
General revenues:						
Property taxes	13,915,284	13,151,072	-	-	13,915,284	13,151,072
Excises	957,980	931,633	-	-	957,980	931,633
Penalties, interest and other taxes	104,558	-	-	-	104,558	-
Grants and contributions not restricted to specific programs	874,695	889,859	-	-	874,695	889,859
Investment income (loss)	(18,464)	32,715	-	-	(18,464)	32,715
Miscellaneous	76,588	74,431	-	-	76,588	74,431
Total revenues	17,958,704	16,877,200	1,512,412	1,611,308	19,471,116	18,488,508
Expenses:						
General government	2,025,455	1,939,919	-	-	2,025,455	1,939,919
Public safety	4,713,890	4,013,582	-	-	4,713,890	4,013,582
Education	8,869,727	8,196,052	-	-	8,869,727	8,196,052
Public works	2,102,321	2,088,183	-	-	2,102,321	2,088,183
Health and human services	246,321	192,731	-	-	246,321	192,731
Culture and recreation	523,398	427,101	-	-	523,398	427,101
Interest on long-term debt	623,599	698,442	-	-	623,599	698,442
Intergovernmental	48,887	-	-	-	48,887	-
Water operations	-	-	898,038	924,479	898,038	924,479
Sewer operations	-	-	1,010,495	1,135,800	1,010,495	1,135,800
Total expenses	19,153,598	17,556,010	1,908,533	2,060,279	21,062,131	19,616,289
Change in net position before transfers	(1,194,894)	(678,810)	(396,121)	(448,971)	(1,591,015)	(1,127,781)
Transfers, net	(75,175)	67,825	171,000	-	95,825	67,825
Changes in net position	(1,270,069)	(610,985)	(225,121)	(448,971)	(1,495,190)	(1,059,956)
Net position - beginning of year, as restated	18,095,962	21,878,548	20,210,369	20,616,681	38,306,331	42,495,229
Net position - end of year	\$ 16,825,893	\$ 21,267,563	\$ 19,985,248	\$ 20,167,710	\$ 36,811,141	\$ 41,435,273

Fiscal year 2017 amounts reported above were not restated as the Town applied GASB 75 prospectively.

Governmental activities. Governmental activities for the year resulted in a change in net position of \$(1,270,069) from the restated prior year. Key elements of this change are as follows:

General fund operating results, as discussed further in section D	\$ (492,855)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	(95,061)
Depreciation expense in excess of principal debt service	(937,691)
Capital assets purchases from grant and general resources	1,191,834
Change in net pension liability, net of deferrals	(831,529)
Change in net OPEB liability, net of deferrals	(467,843)
Other GAAP accruals	<u>363,076</u>
Total	\$ <u>(1,270,069)</u>

Business-type activities. Business-type activities for the year (except for the Ashburnham Municipal Light Plant, a major enterprise fund) resulted in a change in net position of \$(225,121), from the restated prior year. This change resulted from expenditures exceeding revenues for both the water and sewer enterprise funds in fiscal year 2018.

D. FINANCIAL ANALYSIS OF FUNDS

As noted earlier, fund accounting is used to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of governmental funds is to provide information on near-term inflows, outflows, and balances of spendable resources. Such information is useful in assessing financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, governmental funds reported combined ending fund balances of \$3,296,195, a change of \$(587,916) in comparison to the prior year. Key elements of this change are as follows:

General fund operating results, as discussed further below	\$ (492,855)
Non-major fund expenditures and transfers out in excess of revenues and transfers in	<u>(95,061)</u>
Total	\$ <u>(587,916)</u>

The general fund is the chief operating fund. At the end of the current fiscal year, unassigned fund balance of the general fund was \$655,684, while total fund balance was \$2,028,751. As a measure of the general fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to total general fund expenditures. Refer to the table below:

<u>General Fund</u>	<u>2018</u>	<u>2017</u>	<u>Change</u>	% of <u>Total 2018 General Fund Expenditures</u>
Unassigned fund balance	\$ 655,684	\$ 1,384,202	\$ (728,518)	3.8%
Total fund balance	\$ 2,028,751	\$ 2,521,606	\$ (492,855)	11.9%

The total fund balance of the general fund changed by \$(492,855) during the current fiscal year. Key factors in this change are as follows:

General Fund Operating Results:

Shortfall of tax collections compared to budget	\$ (37,692)
State and local revenues over budget	211,133
Budgetary appropriations unspent by departments	204,850
Use of free cash (fund balance) as a funding source for nonrecurring expenses	(377,030)
Difference between current year encumbrances to be spent in the subsequent period and prior year encumbrances spent in the current year	(121,477)
Change in Stabilization funds	(186,149)
Unknown budget variance	(151,577)
Other	<u>(34,913)</u>
Total	<u>\$ (492,855)</u>

Included in the total general fund balances are the Town's stabilization accounts with the following balances:

	<u>06/30/18</u>	<u>06/30/17</u>	<u>Change</u>
General stabilization fund	\$ 315,102	\$ 498,700	\$ (183,598)
Capital stabilization fund	<u>462,703</u>	<u>465,254</u>	<u>(2,551)</u>
Total	<u>\$ 777,805</u>	<u>\$ 963,954</u>	<u>\$ (186,149)</u>

Proprietary funds. Proprietary funds provide the same type of information found in the business-type activities reported in the government-wide financial statements, but in more detail.

Unrestricted net position of the enterprise funds (except for the Ashburnham Municipal Light Plant, a major enterprise fund) at the end of the year amounted to \$(31,570), a change of \$176,483 from the restated prior year.

Other factors concerning the finances of proprietary funds have already been addressed in the entity-wide discussion of business-type activities.

E. GENERAL FUND BUDGETARY HIGHLIGHTS

Differences between the original budget and the final amended budget resulted in an overall increase in appropriations of \$19,557 which represents a transfer to the Whittemore trust fund. This transfer was funded from free cash.

F. CAPITAL ASSET AND DEBT ADMINISTRATION

Capital assets. Total investment in capital assets for governmental and business-type activities at year-end amounted to \$64,764,873 (net of accumulated depreciation). This investment in capital assets includes land, buildings and improvements, machinery and equipment, and infrastructure.

Major capital asset events during the current fiscal year included the following:

Depreciation expense - governmental activities	\$ (2,170,868)
Depreciation expense - business-type activities	(861,652)
Infrastructure	
Roadway and sidewalk improvements	587,471
Departmental vehicles and equipment	
Public safety	105,453
Culture and recreation	40,764
Public works	145,245
Construction in progress	
Stevens Memorial Library heat pump	278,543
Watatic dam project	19,898
Rt 101 engineering	14,460

Additional information on capital assets can be found in the Notes to the Financial Statements.

Long-term debt. At the end of the current fiscal year, total bonded debt outstanding was \$19,509,739, all of which was backed by the full faith and credit of the government.

Additional information on long-term debt can be found in the Notes to the Financial Statements.

REQUESTS FOR INFORMATION

This financial report is designed to provide a general overview of the Town's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Town of Ashburnham
Douglas Briggs
Interim Town Administrator
32 Main Street
Ashburnham, Massachusetts 01430

TOWN OF ASHBURNHAM, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
ASSETS			
Current:			
Cash and short-term investments	\$ 1,620,223	\$ 1,294,141	\$ 2,914,364
Investments	1,866,336	-	1,866,336
Receivables:			
Property taxes	643,191	-	643,191
Excises	154,840	-	154,840
User fees, net of allowance	135,129	742,236	877,365
Departmental and other	182,336	554,665	737,001
Intergovernmental	32,978	160,889	193,867
Materials and supplies	-	243,213	243,213
Prepayments	-	32,449	32,449
Purchased power working capital	-	840,849	840,849
	<hr/>	<hr/>	<hr/>
Total current assets	4,635,033	3,868,442	8,503,475
Noncurrent:			
Cash and short term investments- depreciation fund	-	1,744,439	1,744,439
Cash and short term investments - customer deposits	-	90,922	90,922
Cash and short term investments - rate stabilization fund	-	1,617,266	1,617,266
Receivables:			
Property taxes	742,050	-	742,050
Intergovernmental	-	47,593	47,593
Other assets	-	5,143	5,143
Land and construction in progress	3,768,945	312,666	4,081,611
Capital assets, net of accumulated depreciation	37,694,294	28,997,018	66,691,312
	<hr/>	<hr/>	<hr/>
Total noncurrent assets	42,205,289	32,815,047	75,020,336
DEFERRED OUTFLOWS OF RESOURCES			
Related to pensions	908,960	524,860	1,433,820
Related to OPEB	2,311	-	2,311
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	47,751,593	37,208,349	84,959,942

(Continued)

TOWN OF ASHBURNHAM, MASSACHUSETTS

STATEMENT OF NET POSITION

JUNE 30, 2018

(Continued)

	Governmental <u>Activities</u>	Business-Type <u>Activities</u>	<u>Total</u>
LIABILITIES			
Current:			
Warrants payable	183,072	16,218	199,290
Accounts payable	24,434	541,216	565,650
Accrued expense	447,336	140,546	587,882
Other current liabilities	5,261	-	5,261
Current portion of long-term liabilities:			
Bonds payable	1,230,176	630,800	1,860,976
Other	188,275	-	188,275
Total current liabilities	2,078,554	1,328,780	3,407,334
Noncurrent:			
Bonds payable, net of current portion	14,786,268	2,862,495	17,648,763
Net pension liability	8,395,538	2,492,859	10,888,397
Net OPEB liability	5,027,751	769,154	5,796,905
Other, net of current portion	111,338	87,161	198,499
Total noncurrent liabilities	28,320,895	6,211,669	34,532,564
DEFERRED INFLOWS OF RESOURCES			
Related to pensions	261,775	131,300	393,075
Related to OPEB	264,476	20,077	284,553
Contribution in aid of construction, net	-	289,442	289,442
Rate stabilization reserve	-	1,617,266	1,617,266
Purchase power adjustment	-	1,610,659	1,610,659
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	30,925,700	11,209,193	42,134,893
NET POSITION			
Net investment in capital assets	25,258,520	26,024,871	51,283,391
Restricted for:			
Depreciation	-	1,744,439	1,744,439
Grants and other statutory restrictions	410,925	-	410,925
Permanent funds:			
Nonexpendable	344,993	-	344,993
Expendable	619,588	-	619,588
Unrestricted	(9,808,133)	(1,770,154)	(11,578,287)
TOTAL NET POSITION	<u>\$ 16,825,893</u>	<u>\$ 25,999,156</u>	<u>\$ 42,825,049</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

		Program Revenues			Net (Expenses) Revenues and Changes in Net Position		
		Charges for	Operating	Capital	Governmental	Business-	
	Expenses	Services	Grants and Contributions	Grants and Contributions	Activities	Type Activities	Total
Governmental Activities:							
General government	\$ 2,025,455	\$ 272,025	\$ 290,661	\$ -	\$ (1,462,769)	\$ -	\$ (1,462,769)
Public safety	4,713,890	689,757	66,494	-	(3,957,639)	-	(3,957,639)
Education	8,869,727	-	-	-	(8,869,727)	-	(8,869,727)
Public works	2,102,321	64,690	-	343,471	(1,694,160)	-	(1,694,160)
Health and human services	246,321	7,994	134,688	-	(103,639)	-	(103,639)
Culture and recreation	523,398	123,920	54,363	-	(345,115)	-	(345,115)
Interest	623,599	-	-	-	(623,599)	-	(623,599)
Intergovernmental	48,887	-	-	-	(48,887)	-	(48,887)
Total Governmental Activities	19,153,598	1,158,386	546,206	343,471	(17,105,535)	-	(17,105,535)
Business-Type Activities:							
Water operations	898,038	745,774	9,027	-	-	(143,237)	(143,237)
Sewer operations	1,010,495	746,222	11,389	-	-	(252,884)	(252,884)
Electric operations	4,472,299	4,684,733	-	-	-	212,434	212,434
Total Business-Type Activities	6,380,832	6,176,729	20,416	-	-	(183,687)	(183,687)
Total	\$ 25,534,430	\$ 7,335,115	\$ 566,622	\$ 343,471	(17,105,535)	(183,687)	(17,289,222)
General Revenues:							
Property taxes					13,915,284	-	13,915,284
Excises					957,980	-	957,980
Penalties, interest and other taxes					104,558	-	104,558
Grants and contributions not restricted to specific programs					874,695	-	874,695
Investment income (loss)					(18,464)	53,560	35,096
Miscellaneous					76,588	-	76,588
Transfers, net					(75,175)	103,175	28,000
Total general revenues and transfers					15,835,466	156,735	15,992,201
Change in Net Position					(1,270,069)	(26,952)	(1,297,021)
Net Position:							
Beginning of year, as restated					18,095,962	26,026,108	44,122,070
End of year					\$ 16,825,893	\$ 25,999,156	\$ 42,825,049

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS

GOVERNMENTAL FUNDS

BALANCE SHEET

JUNE 30, 2018

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
ASSETS			
Cash and short-term investments	\$ 1,289,177	\$ 331,046	\$ 1,620,223
Investments	950,060	916,276	1,866,336
Receivables:			
Property taxes	643,191	-	643,191
Excises	154,840	-	154,840
User fees, net of allowance	135,129	-	135,129
Departmental and other	-	182,336	182,336
Intergovernmental	32,978	-	32,978
Tax liens	742,050	-	742,050
TOTAL ASSETS	<u>\$ 3,947,425</u>	<u>\$ 1,429,658</u>	<u>\$ 5,377,083</u>
LIABILITIES			
Warrants payable	\$ 165,428	\$ 17,644	\$ 183,072
Accounts payable	-	24,434	24,434
Accrued expenses	130,010	12,074	142,084
Other current liabilities	5,261	-	5,261
TOTAL LIABILITIES	300,699	54,152	354,851
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues	1,617,975	108,062	1,726,037
FUND BALANCES			
Nonspendable	-	344,993	344,993
Restricted	-	943,623	943,623
Committed	722,477	-	722,477
Assigned	650,590	-	650,590
Unassigned	655,684	(21,172)	634,512
TOTAL FUND BALANCES	<u>2,028,751</u>	<u>1,267,444</u>	<u>3,296,195</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES, AND FUND BALANCES	<u>\$ 3,947,425</u>	<u>\$ 1,429,658</u>	<u>\$ 5,377,083</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS
RECONCILIATION OF TOTAL GOVERNMENTAL FUND
BALANCES TO NET POSITION OF GOVERNMENTAL
ACTIVITIES IN THE STATEMENT OF NET POSITION

JUNE 30, 2018

Total Governmental Fund Balances	\$ 3,296,195
• Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental	41,463,239
• In the governmental funds, all receivables are deferred.	1,726,037
• In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due.	(305,252)
• Long-term liabilities, including bonds payable, net pension liability, and net OPEB liability are not due and payable in the current period and, therefore are not reported in the governmental funds.	(29,054,713)
• Other	<u>(299,613)</u>
Net Position of Governmental Activities	<u><u>\$ 16,825,893</u></u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS
GOVERNMENTAL FUNDS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2018

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	Total Governmental <u>Funds</u>
Revenues:			
Property taxes	\$ 13,858,956	\$ -	\$ 13,858,956
Excises	907,501	-	907,501
Penalties, interest, and other taxes	104,558	-	104,558
Charges for services	479,600	327,723	807,323
Intergovernmental	966,886	766,439	1,733,325
Licenses and permits	267,619	-	267,619
Fines and forfeitures	44,883	-	44,883
Contributions and donations	-	-	-
Investment income (loss)	(1,068)	(17,396)	(18,464)
Miscellaneous	9,029	67,559	76,588
	<u>16,637,964</u>	<u>1,144,325</u>	<u>17,782,289</u>
Expenditures:			
Current:			
General government	1,402,114	363,073	1,765,187
Public safety	2,585,644	266,679	2,852,323
Education	7,889,825	-	7,889,825
Public works	1,613,201	343,693	1,956,894
Health and human services	125,709	60,171	185,880
Culture and recreation	251,946	194,488	446,434
Employee benefits	1,264,766	-	1,264,766
Debt service	1,884,834	-	1,884,834
Intergovernmental	48,887	-	48,887
	<u>17,066,926</u>	<u>1,228,104</u>	<u>18,295,030</u>
Excess (deficiency) of revenues over expenditures	(428,962)	(83,779)	(512,741)
Other Financing Sources (Uses):			
Transfers in	128,701	25,289	153,990
Transfers out	(192,594)	(36,571)	(229,165)
	<u>(63,893)</u>	<u>(11,282)</u>	<u>(75,175)</u>
Net change in fund balance	(492,855)	(95,061)	(587,916)
Fund Balance, at Beginning of Year	<u>2,521,606</u>	<u>1,362,505</u>	<u>3,884,111</u>
Fund Balance, at End of Year	<u>\$ 2,028,751</u>	<u>\$ 1,267,444</u>	<u>\$ 3,296,195</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2018

Net Changes in Fund Balances - Total Governmental Funds	\$ (587,916)
<ul style="list-style-type: none"> Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense: 	
Capital outlay purchases	1,191,834
Depreciation	(2,170,868)
<ul style="list-style-type: none"> The issuance of long-term debt (e.g., bonds and capital leases) provides current financial resources to governmental funds, while the repayment of the principal of long-term debt consumes the financial resources of governmental funds. Neither transaction, however, has any effect on net position: 	
Repayments of debt	1,190,696
Repayments of capital lease	183,289
Other	42,481
<ul style="list-style-type: none"> In the statement of activities, interest is accrued on outstanding long-term debt, whereas in governmental funds interest is not reported until due. 	
	28,058
<ul style="list-style-type: none"> Revenues in the statement of activities that do not provide current financial resources are fully deferred in the statement of revenues, expenditures, and changes in fund balances. Therefore, the recognition of revenue for various types of accounts receivable (i.e., real estate and personal property, motor vehicle excise, etc.) differ between the two statements. This amount represents the net change in deferred revenue. 	
	178,346
<ul style="list-style-type: none"> Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds: 	
Net pension liability and related deferred outflows and inflows of resources	(831,529)
Net OPEB liability and related deferred outflows and inflows of resources	(467,843)
Other	<u>(26,617)</u>
Change in Net Position of Governmental Activities	\$ <u>(1,270,069)</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS

GENERAL FUND

STATEMENT OF REVENUES AND OTHER SOURCES, AND EXPENDITURES AND OTHER USES - BUDGET AND ACTUAL
FOR THE YEAR ENDED JUNE 30, 2018

	<u>Budgeted Amounts</u>			Variance with Final Budget Positive (Negative)
	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual Amounts</u>	
Revenues and Transfers In:				
Property taxes	\$ 13,896,648	\$ 13,896,648	\$ 13,896,648	\$ -
Excises	812,700	812,700	907,501	94,801
Penalties, interest and other taxes	98,799	98,799	104,558	5,759
Charges for services	476,445	476,445	479,600	3,155
Intergovernmental	977,406	977,406	966,886	(10,520)
Licenses and permits	227,614	227,614	267,619	40,005
Fines and forfeitures	7,132	7,132	44,883	37,751
Investment income	2,500	2,500	3,462	962
Miscellaneous	-	-	9,029	9,029
Transfers in	184,129	184,129	214,320	30,191
Total Revenues and Transfers In	16,683,373	16,683,373	16,894,506	211,133
Expenditures and Transfers Out:				
General government	1,358,215	1,358,215	1,313,404	44,811
Public safety	2,671,221	2,671,221	2,584,860	86,361
Education	8,086,169	8,086,169	7,932,093	154,076
Public works	1,391,307	1,391,307	1,479,519	(88,212)
Health and human services	124,740	124,740	125,709	(969)
Culture and recreation	275,521	275,521	276,464	(943)
Employee benefits	1,274,492	1,274,492	1,264,766	9,726
Debt service	1,884,834	1,884,834	1,884,834	-
Intergovernmental	48,887	48,887	48,887	-
Transfers out	77,037	96,594	96,594	-
Total Expenditures and Transfers Out	17,192,423	17,211,980	17,007,130	204,850
Excess (deficiency) of revenues and transfers in over expenditures and transfers out	(509,050)	(528,607)	(112,624)	415,983
Other Financing Sources/Uses:				
Use of free cash:				
Operating budget	40,000	59,557	-	(59,557)
Capital outlay	224,473	224,473	-	(224,473)
Transfer to Capital Stabilization fund	73,000	73,000	-	(73,000)
Contribution to OPEB Trust fund	20,000	20,000	-	(20,000)
Total Other Financing Sources/Uses	357,473	377,030	-	(377,030)
Excess (deficiency) of revenues and other sources over expenditures and other uses	\$ <u>(151,577) *</u>	\$ <u>(151,577) *</u>	\$ <u>(112,624)</u>	\$ <u>38,953</u>

* The revenue and expenditures budgets adopted and reported by the Town did not balance.

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

	Business-Type Activities Enterprise Funds			
	<u>Water Fund</u>	<u>Sewer Fund</u>	<u>Electric Fund</u>	<u>Total</u>
ASSETS				
Current:				
Cash and short-term investments	\$ 162,589	\$ 119,670	\$ 1,011,882	\$ 1,294,141
Receivables:				
User fees	295,925	228,567	217,744	742,236
Other	-	-	554,665	554,665
Intergovernmental	108,162	52,727	-	160,889
Materials and supplies	-	-	243,213	243,213
Prepayments	-	-	32,449	32,449
Purchased power working capital	-	-	840,849	840,849
Total current assets	566,676	400,964	2,900,802	3,868,442
Noncurrent:				
Cash and short term investments- depreciation fund	-	-	1,744,439	1,744,439
Cash and short term investments - customer deposits	-	-	90,922	90,922
Cash and short term investments - rate stabilization fund	-	-	1,617,266	1,617,266
Intergovernmental receivables	-	47,593	-	47,593
Other assets	-	-	5,143	5,143
Land and construction in progress	138,497	174,169	-	312,666
Capital assets, net of accumulated depreciation	10,213,715	12,775,250	6,008,053	28,997,018
Total noncurrent assets	10,352,212	12,997,012	9,465,823	32,815,047
DEFERRED OUTFLOWS OF RESOURCES				
Related to pensions	26,218	13,192	485,450	524,860
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	10,945,106	13,411,168	12,852,075	37,208,349

(Continued)

TOWN OF ASHBURNHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF NET POSITION

JUNE 30, 2018

(Continued)

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Electric Fund	Total
LIABILITIES				
Current:				
Warrants payable	12,440	3,778	-	16,218
Accounts payable	-	-	541,216	541,216
Accrued expenses	69,130	5,026	66,390	140,546
Current portion of long-term liabilities:				
Bonds payable	244,800	386,000	-	630,800
Total current liabilities	326,370	394,804	607,606	1,328,780
Noncurrent:				
Bonds payable, net of current portion	2,862,495	-	-	2,862,495
Net pension liability	242,160	121,849	2,128,850	2,492,859
Net OPEB liability	195,961	195,960	377,233	769,154
Other liabilities	-	-	87,161	87,161
Total noncurrent liabilities	3,300,616	317,809	2,593,244	6,211,669
DEFERRED INFLOWS OF RESOURCES				
Related to pensions	7,551	3,799	119,950	131,300
Related to OPEB	10,039	10,038	-	20,077
Contribution in aid of construction, net	-	-	289,442	289,442
Rate stabilization reserve	-	-	1,617,266	1,617,266
Purchase power adjustment	-	-	1,610,659	1,610,659
TOTAL LIABILITIES AND DEFERRED INFLOWS OF RESOURCES	3,644,576	726,450	6,838,167	11,209,193
NET POSITION				
Net investment in capital assets	7,353,079	12,663,739	6,008,053	26,024,871
Net position restricted for depreciation	-	-	1,744,439	1,744,439
Unrestricted	(52,549)	20,979	(1,738,584)	(1,770,154)
TOTAL NET POSITION	<u>\$ 7,300,530</u>	<u>\$ 12,684,718</u>	<u>\$ 6,013,908</u>	<u>\$ 25,999,156</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS
 PROPRIETARY FUNDS
 STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
 FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Electric Fund	Total
Operating Revenues:				
Charges for services	\$ 586,031	\$ 681,806	\$ 4,309,316	\$ 5,577,153
Other	159,743	64,416	375,417	599,576
Total Operating Revenues	745,774	746,222	4,684,733	6,176,729
Operating Expenses:				
Salaries and benefits	188,237	140,896	-	329,133
Other operating expenses	268,350	343,041	4,150,963	4,762,354
Depreciation	347,343	514,309	315,342	1,176,994
Total Operating Expenses	803,930	998,246	4,466,305	6,268,481
Operating Income (Loss)	(58,156)	(252,024)	218,428	(91,752)
Nonoperating Revenues (Expenses):				
Intergovernmental revenue	9,027	11,389	-	20,416
Investment income	-	-	53,560	53,560
Interest expense	(94,108)	(12,249)	(5,994)	(112,351)
Total Nonoperating Revenues (Expenses), Net	(85,081)	(860)	47,566	(38,375)
Income (Loss) Before Transfers	(143,237)	(252,884)	265,994	(130,127)
Transfers:				
Transfers in	-	171,000	-	171,000
Transfers out	-	-	(67,825)	(67,825)
Change in Net Position	(143,237)	(81,884)	198,169	(26,952)
Net Position at Beginning of Year, as restated	7,443,767	12,766,602	5,815,739	26,026,108
Net Position at End of Year	\$ 7,300,530	\$ 12,684,718	\$ 6,013,908	\$ 25,999,156

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Electric Fund	Total
<u>Cash Flows From Operating Activities:</u>				
Receipts from customers and users	\$ 753,469	\$ 778,835	\$ 5,045,974	\$ 6,578,278
Payments to vendors	(203,011)	(231,869)	(2,806,805)	(3,241,685)
Payments to employees and for benefits	(190,032)	(255,538)	(1,359,992)	(1,805,562)
Payments in lieu of taxes and transfers	-	-	(67,825)	(67,825)
Net Cash Provided By Operating Activities	360,426	291,428	811,352	1,463,206
<u>Cash Flows From Noncapital Financing Activities:</u>				
Transfer in	-	171,000	-	171,000
Interest payments, net of subsidy	-	-	(5,994)	(5,994)
Net Cash Provided By / (Used For) Noncapital Financing Activities	-	171,000	(5,994)	165,006
<u>Cash Flows From Capital and Related Financing Activities:</u>				
Acquisition of capital assets	-	-	(572,515)	(572,515)
Principal payments on bonds and notes	(234,338)	(375,100)	-	(609,438)
Contribution in aid of construction	-	-	107,918	107,918
Customer advance for construction	-	-	4,636	4,636
Interest payments, net of subsidy	(88,774)	(9,217)	-	(97,991)
Net Cash (Used For) Capital and Related Financing Activities	(323,112)	(384,317)	(459,961)	(1,167,390)
<u>Cash Flows From Investing Activities:</u>				
Net transfer to OPEB and depreciation fund	-	-	(318,414)	(318,414)
Purchase of investments	-	-	(4,165)	(4,165)
Investment income	-	-	12,431	12,431
Net Cash (Used For) Investing Activities	-	-	(310,148)	(310,148)
Net Change in Cash and Short-Term Investments	37,314	78,111	35,249	150,674
Cash and Short-Term Investments, Beginning of Year	125,275	41,559	1,067,555	1,234,389
Cash and Short-Term Investments, End of Year	\$ 162,589	\$ 119,670	\$ 1,102,804	\$ 1,385,063

(Continued)

TOWN OF ASHBURNHAM, MASSACHUSETTS

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED JUNE 30, 2018

	Business-Type Activities Enterprise Funds			
	Water Fund	Sewer Fund	Electric Fund	Total
<u>Reconciliation of Operating Income (Loss) to Net Cash</u>				
<u>Provided by Operating Activities:</u>				
Operating income (loss)	\$ (58,156)	\$ (252,024)	\$ 218,428	\$ (91,752)
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation and allowance	347,343	514,309	315,342	1,176,994
Payments in lieu of taxes and transfers	-	-	(67,825)	(67,825)
Changes in assets, liabilities, and deferred outflows/inflows:				-
User fees receivable	7,695	32,613	2,325	42,633
Other receivable	-	-	(378,642)	(378,642)
Materials and supplies	-	-	(24,886)	(24,886)
Prepayments	-	-	40,551	40,551
Purchased power working capital	-	-	(36,000)	(36,000)
Intergovernmental receivables	60,629	108,737	-	169,366
Deferred outflows - related to pensions	19,026	32,052	(190,166)	(139,088)
Warrants and accounts payable	4,710	2,435	176,741	183,886
Accrued expenses	6,835	5,026	10,554	22,415
Net pension liability	(38,618)	(158,929)	(775)	(198,322)
Net OPEB liability	9,130	9,130	322,446	340,706
Other liabilities	-	-	76,507	76,507
Deferred inflows - related to pensions	(8,207)	(11,959)	(28,089)	(48,255)
Deferred inflows - related to OPEB	10,039	10,038	-	20,077
Deferred inflows - rate stabilization reserve	-	-	15,150	15,150
Deferred inflows - purchase power adjustment	-	-	359,691	359,691
Net Cash Provided By Operating Activities	<u>\$ 360,426</u>	<u>\$ 291,428</u>	<u>\$ 811,352</u>	<u>\$ 1,463,206</u>
<u>Supplemental Disclosures of Cash Flow Information:</u>				
The following accounts are considered to be cash or cash equivalents for the statement of cash flows:				
Operating cash	\$ 162,589	\$ 119,670	\$ 1,011,882	\$ 1,294,141
Customer deposits	-	-	90,922	90,922
Total	<u>\$ 162,589</u>	<u>\$ 119,670</u>	<u>\$ 1,102,804</u>	<u>\$ 1,385,063</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF FIDUCIARY NET POSITION
JUNE 30, 2018

	General Other Post-Employment Benefits Trust Fund	Electric Other Post-Employment Benefits Trust Fund	Agency Funds	Total
ASSETS				
Cash and short-term investments	\$ 20,361	\$ 253,984	\$ 119,116	\$ 393,461
Investments in mutual funds	<u>105,344</u>	<u>-</u>	<u>-</u>	<u>105,344</u>
Total Assets	125,705	253,984	119,116	498,805
LIABILITIES				
Warrants payable	-	-	7,297	7,297
Accrued expenses	-	-	79,373	79,373
Other liabilities	<u>-</u>	<u>-</u>	<u>32,446</u>	<u>32,446</u>
Total Liabilities	<u>-</u>	<u>-</u>	<u>119,116</u>	<u>119,116</u>
NET POSITION				
Net position restricted for OPEB	<u>\$ 125,705</u>	<u>\$ 253,984</u>	<u>\$ -</u>	<u>\$ 379,689</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS
FIDUCIARY FUNDS
STATEMENT OF CHANGES IN FIDUCIARY NET POSITION
FOR THE YEAR ENDED JUNE 30, 2018

	General Other Post-Employment Benefits Trust Fund	Electric Other Post-Employment Benefits Trust Fund	Total
Additions:			
Employer contributions	\$ 82,133	\$ 465	\$ 82,598
Interest and dividends	<u>5,480</u>	<u>32,453</u>	<u>37,933</u>
Total additions	87,613	32,918	120,531
Deductions:			
Benefit payments	<u>62,133</u>	<u>-</u>	<u>62,133</u>
Total deductions	<u>62,133</u>	<u>-</u>	<u>62,133</u>
Change in net position	25,480	32,918	58,398
Net Position restricted for OPEB:			
Beginning of year	<u>100,225</u>	<u>221,066</u>	<u>321,291</u>
End of year	<u>\$ 125,705</u>	<u>\$ 253,984</u>	<u>\$ 379,689</u>

The accompanying notes are an integral part of these financial statements.

TOWN OF ASHBURNHAM, MASSACHUSETTS

Notes to Financial Statements

1. Summary of Significant Accounting Policies

The accounting policies of the Town of Ashburnham, (the Town), conform to generally accepted accounting principles (GAAP) as applicable to governmental units. The following is a summary of the more significant policies:

A. Reporting Entity

The government is a municipal corporation governed by an elected Select Board. As required by generally accepted accounting principles, these financial statements present the government and applicable component units for which the government is considered to be financially accountable (i.e. Ashburnham Municipal Light Plant, a major enterprise fund). Note disclosures for the Ashburnham Municipal Light Plant are presented in a separate report.

B. Government-Wide and Fund Financial Statements

Government-Wide Financial Statements

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the primary government. Interfund services provided and used are not eliminated in the process of consolidation. For the most part, the effect of interfund activity has been removed from these statements.

Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items

not properly included among program revenues are reported instead as *general revenues*.

Fund Financial Statements

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

C. Measurement Focus, Basis of Accounting, and Financial Statement Presentation

Government-Wide Financial Statements

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements, with the exception of interfund services provided and used, which are not eliminated in the process of consolidation.

Amounts reported as *program revenues* include (1) charges to customers or applicants for goods, services, or privileges provided, (2) operating grants and contributions, and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes and excises.

Fund Financial Statements

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers property tax revenues to be available if they are collected within 60 days of the end of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the government. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, certain expenditures such as debt service, claims and judgments, compensated absences, OPEB, and pension are recorded only when payment is due.

The Town reports the following major governmental fund:

- The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The proprietary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise fund are charges to customers for sales and services. Operating expenses for enterprise funds include salaries and benefits, the cost of sales and services, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The Town reports the following major proprietary funds:

- The *water enterprise fund* accounts for the operations of the Town's water treatment facility and supporting infrastructure.
- The *sewer enterprise fund* accounts for the operations of the Town's wastewater treatment facility and supporting infrastructure.
- The *electric enterprise fund* accounts for the operations of the Ashburnham Municipal Light Plant.

The fiduciary fund financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Under this method, revenues are recognized when earned and expenses are recorded when liabilities are incurred.

The Town reports the following fiduciary funds:

- The *general other post-employment benefits trust fund* is used to accumulate resources for health and life insurance benefits for retired employees.
- The *electric other post-employment benefits trust fund* is used to accumulate resources for health and life insurance benefits for retired employees for the Ashburnham Municipal Light Plant.
- The *private-purpose trust fund* is used to account for trust arrangements, other than those properly reported in a permanent fund,

under which principal and investment income exclusively benefit individuals, private organizations, or other governments.

- The *agency funds* account for fiduciary assets held by the Town in a custodial capacity as an agent on behalf of others. Agency funds report only assets and liabilities, and therefore, have no measurement focus.

D. Cash and Short-Term Investments

Cash balances from all funds, except those required to be segregated by law, are combined to form a consolidation of cash. Cash balances are invested to the extent available, and interest earnings are recognized in the general fund. Certain special revenue, proprietary, and fiduciary funds segregate cash, and investment earnings become a part of those funds.

Deposits with financial institutions consist primarily of demand deposits and savings accounts. A cash and investment pool is maintained that is available for use by all funds. Each fund's portion of this pool is reflected on the combined financial statements under the caption "cash and short-term investments". The interest earnings attributable to each fund type are included under investment income.

For the purpose of the statement of cash flows, the proprietary funds consider investments with original maturities of three months or less to be short-term investments.

E. Investments

State and local statutes place certain limitations on the nature of deposits and investments available. Deposits in any financial institution may not exceed certain levels within the financial institution. Non-fiduciary fund investments can be made in securities issued by or unconditionally guaranteed by the U.S. Government or agencies that have a maturity of one year or less from the date of purchase and repurchase agreements guaranteed by such securities with maturity dates of no more than 90 days from the date of purchase.

The Town's investments consist of certificates of deposit, corporate bonds, equity investments, federal securities and mutual funds. Investments are carried at fair value, except certificates of deposit, which are reported at cost.

F. Property Tax Limitations

Legislation known as "Proposition 2½" has limited the amount of revenue that can be derived from property taxes. The prior fiscal year's tax levy limit is used as a base and cannot increase by more than 2.5 percent

(excluding new growth), unless an override is voted. The actual fiscal year 2018 tax levy reflected an excess capacity of \$9,055.

G. Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at acquisition value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

Capital assets are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings and improvements	20 – 50
Machinery, equipment and other	3 – 10
Infrastructure	30 – 50

H. Compensated Absences

It is the Town's policy to permit employees to accumulate earned but unused vacation and sick pay benefits. All vested sick and vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

I. Long-Term Obligations

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt, and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net position.

J. Fund Equity

Fund equity at the governmental fund financial reporting level is classified as “fund balance”. Fund equity for all other reporting is classified as “net position”.

Fund Balance - Generally, fund balance represents the difference between the current assets/deferred outflows and current liabilities/deferred inflows. The Town reserves those portions of fund balance that are legally segregated for a specific future use or which do not represent available, spendable resources and therefore, are not available for appropriation or expenditure. Unassigned fund balance indicates that portion of fund balance that is available for appropriation in future periods. The general fund is the only fund that reports a positive unassigned fund balance. Temporary fund balance deficits are reported as negative amounts in the unassigned classification in other governmental funds. Unassigned amounts in the general fund are available for any purpose.

The Town’s fund balance classification policies and procedures are as follows:

- Nonspendable funds are either unspendable in the current form (i.e. inventory or prepaid items) or can never be spent (i.e. perpetual care).
- Restricted funds are used solely for the purpose in which the fund was established. In the case of special revenue funds, these funds are created by statute or otherwise have external constraints on how the funds can be expended.
- Committed funds are reported and expended as a result of motions passed by the highest decision-making authority in the government (i.e., Town Meeting).
- Assigned funds are used for specific purposes as established by management. These funds, which include encumbrances, have been assigned for specific goods and services ordered but not yet paid for. This account also includes fund balance (free cash) voted to be used in the subsequent fiscal year.
- Unassigned funds are available to be spent in future periods.

When an expenditure is incurred that would qualify for payment from multiple fund balance types, the Town uses the following order to liquidate liabilities: restricted, committed, assigned, and unassigned.

Net Position - Net position represents the difference between assets/deferred outflows and liabilities/deferred inflows. Net investment in capital assets, consist of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowing used for the acquisition,

construction or improvement of those assets. Net position is reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Town or through external restrictions imposed by creditors, grantors, or laws or regulations of other governments. The remaining net position is reported as unrestricted.

K. Use of Estimates

The preparation of basic financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures for contingent assets and liabilities at the date of the basic financial statements and the reported amounts of the revenues and expenditures/expenses during the fiscal year. Actual results could vary from estimates that were used.

2. Stewardship, Compliance, and Accountability

A. Budgetary Information

The budgets for all departments and operations of the Town are prepared under the direction of the Town Administrator and Select Board. At the annual town meeting, an operating and capital budget is presented for the proposed expenditures of the fiscal year commencing the following July 1. The budget, as enacted by town meeting, establishes the legal level of control and specifies that certain appropriations are to be funded by particular revenues. The original budget is amended during the fiscal year at special town meetings as required by changing conditions. In cases of extraordinary or unforeseen expenses, the Finance Committee is empowered to transfer funds from the reserve fund (a contingency appropriation) to a departmental appropriation. "Extraordinary" includes expenses which are not in the usual line, or are great or exceptional. "Unforeseen" includes expenses which are not foreseen as of the time of the annual meeting when appropriations are voted.

Departments are limited to the line items as voted. Certain items may exceed the line item budget as approved if it is for an emergency and for the safety of the general public. These items are limited by the Massachusetts General Laws and must be raised in the next year's tax rate.

Formal budgetary integration is employed as a management control device during the year for the general fund and proprietary funds. Effective budgetary control is achieved for all other funds through provisions of the Massachusetts General Laws.

At year-end, appropriation balances lapse, except for certain unexpended capital items and encumbrances which will be honored during the subsequent year.

B. Budgetary Basis

The general fund final appropriation appearing on the “Budget and Actual” page of the fund financial statements represents the final amended budget after all reserve fund transfers and supplemental appropriations.

C. Budget/GAAP Reconciliation

The budgetary data for the general and proprietary funds is based upon accounting principles that differ from generally accepted accounting principles (GAAP). Therefore, in addition to the GAAP basis financial statements, the results of operations of the general fund are presented in accordance with budgetary accounting principles to provide a meaningful comparison to budgetary data.

The following is a summary of adjustments made to the actual revenues and other sources, and expenditures and other uses, to conform to the budgetary basis of accounting.

<u>General Fund</u>	<u>Revenues and Other Financing Sources</u>	<u>Expenditures and Other Financing Uses</u>
Revenues/expenditures (GAAP basis)	\$ 16,637,964	\$ 17,066,926
Other financing sources/uses (GAAP basis)	128,701	192,594
Subtotal (GAAP basis)	16,766,665	17,259,520
Adjust for stabilization fund	90,149	(96,000)
Adjust tax revenue to accrual basis	37,692	-
Reverse beginning of year appropriation carry- forwards from expenditures	-	(381,251)
Add end of year appropriation carryforwards to expenditures	-	259,774
Other GAAP accruals	-	(34,913)
Budgetary basis	<u>\$ 16,894,506</u>	<u>\$ 17,007,130</u>

D. Excess of Expenditures Over Appropriations

Expenditures exceeding appropriations during the current fiscal year were as follows:

Public works	\$ (88,212)
Health and human services	(969)
Culture and recreation	(943)

E. Deficit Fund Equity

The following funds reflected deficit balances as of June 30, 2018:

<u>Nonmajor Governmental Funds</u>	
Economic Development Revolver	\$ (10,258)
911 Training Grant	<u>(10,914)</u>
Total Nonmajor Funds	<u>\$ (21,172)</u>

It is anticipated that these deficits will be eliminated through future grant revenues, and transfers from other funds.

3. Cash and Short-Term Investments

Custodial Credit Risk - Deposits. Custodial credit risk is the risk that in the event of a bank failure, the Town's deposits may not be returned. Massachusetts General Law Chapter 44, Section 55, limits the Town's deposits "in a bank or trust company or banking company to an amount not exceeding sixty percent of the capital and surplus of such bank or trust company or banking company, unless satisfactory security is given to it by such bank or trust company or banking company for such excess." The OPEB Trust funds are invested in accordance with Chapter 203C.

As of June 30, 2018, none of the Town's bank balance of \$4,129,886 was exposed to custodial credit risk as uninsured and/or uncollateralized.

4. Investments

A. Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. For short-term investments that were purchased using surplus revenues, Massachusetts General Law, Chapter 44, Section 55, limits the Town's investments to the

top rating issued by at least one nationally recognized statistical rating organization (NRSROs). The Town does not have policies for credit risk.

Presented below is the actual rating as of year-end for each investment of the Town:

Investment Type	Amount	Exempt From Disclosure	Rating as of Year-End		
			Aaa	A 1/2/3	Baa 1/2
Certificates of deposit	\$ 291,499	\$ 291,499	\$ -	\$ -	\$ -
Corporate bonds	330,228	-	-	147,761	182,467
Equity investments	253,599	253,599	-	-	-
Federal securities	665,462	-	665,462	-	-
Mutual funds	430,892	430,892	-	-	-
Total investments	<u>\$ 1,971,680</u>	<u>\$ 975,990</u>	<u>\$ 665,462</u>	<u>\$ 147,761</u>	<u>\$ 182,467</u>

B. Custodial Credit Risk

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty (e.g. broker-dealer) to a transaction, a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. The Town does not have policies for custodial credit risk.

The Town's investments are subject to custodial credit risk exposure because the related securities are uninsured, unregistered and/or held by the Town's brokerage firm, which is also the Counterparty to these securities. The Town manages this custodial credit risk with SIPC and excess SIPC.

C. Concentration of Credit Risk

Concentration of credit risk for investments is the risk of loss attributed to the magnitude of the Town's investment's in a single issuer. The Town does not have policies for concentration of credit risk.

The Town does not have an investment in any one issuer greater than 5% of total investments.

D. Interest Rate Risk

Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. The Town does not have policies for interest rate risk.

Information about the sensitivity of the fair values of the Town's investments to market interest rate fluctuations is as follows:

<u>Investment Type</u>	<u>Amount</u>	<u>Exempt from Disclosure</u>	<u>Investment Maturities (in Years)</u>	
			<u>Less Than 1</u>	<u>1-5</u>
Certificates of deposit	\$ 291,499	\$ -	\$ 100,595	\$ 190,904
Corporate bonds	330,228	-	107,711	222,517
Equity investments	253,599	253,599	-	-
Federal securities	665,462	-	134,733	530,729
Mutual funds	430,892	430,892	-	-
Total investments	<u>\$ 1,971,680</u>	<u>\$ 684,491</u>	<u>\$ 343,039</u>	<u>\$ 944,150</u>

E. Foreign Currency Risk

Foreign currency risk is the risk that changes in foreign exchange rates will adversely affect the fair value of an investment. Massachusetts The Town does not have policies for foreign currency risk.

F. Fair Value

The Town categorizes its fair value measurements within the fair value hierarchy established by Governmental Accounting Standards Board Statement No. 72 *Fair Value Measurement and Application* (GASB 72). The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Town has the following fair value measurements as of June 30, 2018:

		Fair Value Measurements Using:		
Description	Value	Quoted prices in active markets for identical assets (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Investments by fair value level:				
Debt securities				
Federal securities	\$ 665,462	\$ -	\$ 665,462	\$ -
Corporate bonds	330,228	-	330,228	-
Mutual funds	430,892	430,892	-	-
Equity securities	253,599	-	253,599	-
Total	\$ 1,680,181			

5. Property Taxes and Excises Receivables

Real estate and personal property taxes are levied and based on values assessed on January 1 of every year. Assessed values are established by the Board of Assessor's for 100% of the estimated fair market value. Taxes are due on a quarterly basis and are subject to penalties and interest if they are not paid by the respective due date. Real estate and personal property taxes levied are recorded as receivables in the fiscal year they relate to.

The day after the final tax bill is due, a demand notice may be sent to the delinquent taxpayer. Fourteen days after the demand notice has been sent, the tax collector may proceed to file a lien against the delinquent taxpayers' property. The Town has an ultimate right to foreclose on property for unpaid taxes. Personal property taxes cannot be secured through the lien process.

Motor vehicle excise taxes are assessed annually for every motor vehicle and trailer registered in the Commonwealth. The Registry of Motor Vehicles annually calculates the value of all registered motor vehicles for the purpose of excise assessment. The amount of motor vehicle excise tax due is calculated using a fixed rate of \$25 per \$1,000 of value.

Property taxes and excise receivables at June 30, 2018 consists of the following:

Real estate taxes	\$ 638,294
Personal property taxes	<u>4,897</u>
Total property taxes	\$ 643,191
Motor vehicle excise	\$ 154,840
Tax liens	\$ 742,050

6. User Fee Receivables

Receivables for user charges at June 30, 2018 consist of the following:

	<u>Gross Amount</u>	<u>Allowance for Doubtful Accounts</u>	<u>Net Amount</u>
<u>Governmental Activities:</u>			
Ambulance	\$ <u>234,077</u>	\$ <u>(98,948)</u>	\$ <u>135,129</u>
<u>Business-Type Activities:</u>			
Water	\$ 295,925	\$ -	\$ 295,925
Sewer	<u>228,567</u>	<u>-</u>	<u>228,567</u>
Total Business-Type	\$ <u>524,492</u>	\$ <u>-</u>	\$ <u>524,492</u>

7. Intergovernmental Receivables

This balance in governmental activities represents reimbursements requested from Federal and state agencies for expenditures incurred in fiscal 2018. The balance in business-type activities represents the scheduled reimbursement related to debt principal from the Massachusetts Clean Water Trust (MCWT).

8. Capital Assets

Capital asset activity for the year ended June 30, 2018 was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Convert CIP</u>	<u>Ending Balance</u>
Governmental Activities:				
Capital assets, being depreciated:				
Buildings and improvements	\$ 40,772,235	\$ -	\$ -	\$ 40,772,235
Machinery, equipment, and furnishings	9,943,049	291,462	-	10,234,511
Infrastructure	7,099,445	587,471	-	7,686,916
Total capital assets, being depreciated	57,814,729	878,933	-	58,693,662
Less accumulated depreciation for:				
Buildings and improvements	(10,541,454)	(1,204,867)	-	(11,746,321)
Machinery, equipment, and furnishings	(5,292,446)	(665,794)	-	(5,958,240)
Infrastructure	(2,994,600)	(300,207)	-	(3,294,807)
Total accumulated depreciation	(18,828,500)	(2,170,868)	-	(20,999,368)
Total capital assets, being depreciated, net	38,986,229	(1,291,935)	-	37,694,294
Capital assets, not being depreciated:				
Land	3,423,578	-	-	3,423,578
Construction in progress (CIP)	32,466	312,901	-	345,367
Total capital assets, not being depreciated	3,456,044	312,901	-	3,768,945
Governmental activities capital assets, net	\$ 42,442,273	\$ (979,034)	\$ -	\$ 41,463,239
Business-Type Activities:				
Capital assets, being depreciated:				
Building improvements	\$ 9,084,274	\$ -	\$ -	\$ 9,084,274
Machinery, equipment, and furnishings	445,270	-	-	445,270
Infrastructure	31,316,720	-	2,025,000	33,341,720
Total capital assets, being depreciated	40,846,264	-	2,025,000	42,871,264
Less accumulated depreciation for:				
Building improvements	(4,880,040)	(215,618)	-	(5,095,658)
Machinery, equipment, and furnishings	(429,782)	(12,796)	-	(442,578)
Infrastructure	(13,710,822)	(633,238)	-	(14,344,060)
Total accumulated depreciation	(19,020,644)	(861,652)	-	(19,882,296)
Total capital assets, being depreciated, net	21,825,620	(861,652)	2,025,000	22,988,968
Capital assets, not being depreciated:				
Land	312,666	-	-	312,666
Construction in progress (CIP)	2,025,000	-	(2,025,000)	-
Total capital assets, not being depreciated	2,337,666	-	(2,025,000)	312,666
Business-type activities capital assets, net	\$ 24,163,286	\$ (861,652)	\$ -	\$ 23,301,634

Depreciation expense was charged to functions of the Town as follows:

Governmental Activities:	
General government	\$ 158,086
Public safety	516,171
Education	979,902
Public works	480,549
Health and human services	500
Culture and recreation	<u>35,660</u>
Total depreciation expense - governmental activities	<u>\$ 2,170,868</u>
Business-Type Activities:	
Water	\$ 347,343
Sewer	<u>514,309</u>
Total depreciation expense - business-type activities	<u>\$ 861,652</u>

9. Deferred Outflows of Resources

Deferred outflows of resources represent the consumption of net position by the Town that is applicable to future reporting periods. Deferred outflows of resources have a positive effect on net position, similar to assets. Deferred outflows of resources related to pensions and OPEB, in accordance with GASB Statements No. 68 and 75 are more formally discussed in the corresponding pension and OPEB notes.

10. Warrants and Accounts Payable

Warrants payable represent 2018 expenditures paid by July 15, 2018. Accounts payable represent additional 2018 expenditures paid after July 15, 2018.

11. Capital Lease Obligations

The Town is the lessee of a Fire Pumper Truck under capital lease expiring through 2019. Of the \$193,396 payment that is due in fiscal year 2019, \$5,121 represents interest.

12. Long-Term Debt

A. General Obligation Bonds

The Town issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation

bonds have been issued for both governmental and business-type activities. General obligation bonds currently outstanding are as follows:

	Issue Date	Serial Maturities Through	Interest Rate(s) %	Bond Outstanding as of June 30, 2018	Bond Premium Amortization	Total Outstanding as of June 30, 2018
<u>Governmental Activities:</u>						
Septic System Betterment T5-98-1019	06/28/01	08/01/19	0.0%	\$ 19,448	\$ -	\$ 19,448
Septic System Betterment T5-98-1019-1	07/01/04	08/01/22	3.0 - 5.0%	50,324	-	50,324
Building Construction - Public Safety	07/01/08	07/01/26	3.5 - 5.0%	2,880,000	-	2,880,000
Building Remodeling - Town Hall	07/01/08	07/01/26	3.5 - 5.0%	1,350,000	-	1,350,000
Septic System Betterment T5-98-1019-2B	12/18/07	07/15/27	0.0%	60,000	-	60,000
Building Construction - School	01/23/14	01/15/34	2.0 - 5.0%	10,945,000	711,672	11,656,672
Total Governmental Activities				<u>\$ 15,304,772</u>	<u>\$ 711,672</u>	<u>\$ 16,016,444</u>
<u>Business-Type Activities:</u>						
Sewer 95-19 Refunding CWT	11/01/98	08/01/18	4.0 - 5.125%	\$ 386,000	\$ -	\$ 386,000
Water Treatment Facility DW-99-07 Refunding	09/28/01	08/01/19	4.1 - 5.75%	356,510	-	356,510
Water Treatment Facility DW-99-07A	11/15/02	08/01/19	3.0 - 5.25%	40,000	-	40,000
USDA Project - Water	08/30/12	08/30/50	2.75%	1,337,780	-	1,337,780
USDA Project - Water	11/10/15	11/10/53	2.625%	1,373,005	-	1,373,005
Total Business-Type Activities				<u>\$ 3,493,295</u>	<u>\$ -</u>	<u>\$ 3,493,295</u>

B. Future Debt Service

The annual payments to retire all general obligation long-term debt outstanding (including bond premium amortization) as of June 30, 2018 are as follows:

<u>Governmental</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 1,230,176	\$ 641,343	\$ 1,871,519
2020	1,230,176	586,247	1,816,423
2021	1,220,444	532,437	1,752,881
2022	1,220,684	475,484	1,696,168
2023	1,220,684	422,846	1,643,530
2024 - 2028	5,532,400	1,349,581	6,881,981
2029 - 2033	3,637,400	545,200	4,182,600
Thereafter	724,480	27,200	751,680
Total	<u>\$ 16,016,444</u>	<u>\$ 4,580,338</u>	<u>\$ 20,596,782</u>
<u>Business-Type</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2019	\$ 630,800	\$ 97,037	\$ 727,837
2020	250,625	76,481	327,106
2021	51,462	70,169	121,631
2022	52,846	68,785	121,631
2023	54,268	67,363	121,631
2024 - 2028	294,041	314,114	608,155
2029 - 2033	335,781	272,373	608,154
Thereafter	1,823,472	537,361	2,360,833
Total	<u>\$ 3,493,295</u>	<u>\$ 1,503,683</u>	<u>\$ 4,996,978</u>

C. Changes in General Long-Term Liabilities

During the year ended June 30, 2018, the following changes occurred in long-term liabilities:

	Total Balance July 1, 2017 (restated)	Additions	Reductions	Total Balance June 30, 2018	Less Current Portion	Long-Term Portion June 30, 2018
<u>Governmental Activities</u>						
Bonds payable	\$ 16,495,468	\$ -	\$ (1,190,696)	\$ 15,304,772	\$ (1,185,696)	\$ 14,119,076
Unamortized premium	754,153	-	(42,481)	711,672	(44,480)	667,192
Subtotal	17,249,621	-	(1,233,177)	16,016,444	(1,230,176)	14,786,268
Net pension liability	7,728,427	667,111	-	8,395,538	-	8,395,538
Net OPEB liability	4,822,073	-	205,678	5,027,751	-	5,027,751
Other:						
Accrued compensated absences	86,652	24,686	-	111,338	-	111,338
Capital lease	371,564	-	(183,289)	188,275	(188,275)	-
Subtotal Other	458,216	24,686	(183,289)	299,613	(188,275)	111,338
Totals	\$ 30,258,337	\$ 691,797	\$ (1,210,788)	\$ 29,739,346	\$ (1,418,451)	\$ 28,320,895
<u>Business-Type Activities</u>						
Bonds payable	\$ 4,102,890	-	(609,595)	\$ 3,493,295	\$ (630,800)	\$ 2,862,495
Net pension liability	561,556	-	(197,547)	364,009	-	364,009
Net OPEB liability	373,661	18,260	-	391,921	-	391,921
Totals	\$ 5,038,107	\$ 18,260	\$ (807,142)	\$ 4,249,225	\$ (630,800)	\$ 3,618,425

The governmental activities liabilities will be liquidated by the general fund. The business-type activities liabilities will be liquidated by the water and sewer funds.

D. Overlapping Debt

The Town is a member community of other governmental agencies, which are authorized to issue debt. The Town is not directly responsible for the payment or guarantee of these debts; however, annual debt service costs are included in the operating budgets of these agencies and are funded through user charges and/or other assessments to the Town. The following summarizes the debt of these other agencies and the Town's related participation percentages:

Related Entity:	Total Principal	Town's Percent	Town's Share
Ashburnham-Westminster RSD	\$ 4,505,000	27.64%	\$ 1,245,107
Montachusett Vocational Technical School	2,247,000	4.19%	94,149
Total	\$ 6,752,000		\$ 1,339,256

13. Deferred Inflows of Resources

Deferred inflows of resources are the acquisition of net position by the Town that are applicable to future reporting periods. Deferred inflows of resources have a negative effect on net position, similar to liabilities. Deferred inflows of resources related to pension and OPEB will be recognized as expense in future years and are more fully described in the corresponding pension and OPEB notes.

Unavailable revenues are reported in the governmental funds balance sheet in connection with receivables for which revenues are not considered available to liquidate liabilities of the current year.

14. Transfers

The Town reports interfund transfers between various funds. Most transfers result from budgetary or statutory actions, whereby funds are moved to accomplish various expenditure purposes. The following is an analysis of major interfund transfers:

<u>Governmental Funds:</u>	<u>Transfers In</u>	<u>Transfers Out</u>
General fund	\$ 128,701	\$ 192,594
Nonmajor Funds:		
Special revenue funds	2,037	33,763
Expendable trust funds	<u>23,252</u>	<u>2,808</u>
Subtotal Nonmajor Funds	<u>25,289</u>	<u>36,571</u>
<u>Business Type Funds:</u>		
Sewer	<u>171,000</u>	<u>-</u>
Subtotal Business Type Funds	<u>171,000</u>	<u>-</u>
Grand Total	<u>\$ 324,990 *</u>	<u>\$ 229,165 *</u>

* Transfers in and out do not balance because the general fund includes a transfer in of \$95,825 from the Ashburnham Municipal Light Plant (electric enterprise fund), whose information is excluded from the Town's footnotes.

15. Governmental Funds – Balances

Fund balances are segregated to account for resources that are either not available for expenditure in the future or are legally set aside for a specific future use.

The Town implemented GASB Statement No. 54 (GASB 54), *Fund Balance Reporting and Governmental Fund Type Definitions*, which enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying existing governmental fund type definitions.

The following types of fund balances are reported at June 30, 2018:

Nonspendable - Represents amounts that cannot be spent because they are either (a) not in spendable form or (b) legally or contractually required to be maintained intact. This fund balance classification includes the principal portion of permanent trust funds.

Restricted - Represents amounts that are restricted to specific purposes by constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments, or constraints imposed by law through constitutional provisions or enabling legislation. This fund balance classification includes various special revenue funds and the income portion of permanent trust funds.

Committed - Represents amounts that can only be used for specific purposes pursuant to constraints imposed by formal action of the Town's highest level of decision-making authority (Town Meeting). This fund balance classification includes general fund encumbrances for non-lapsing special article appropriations approved at Town Meeting and stabilization funds restricted for specific purposes.

Assigned - Represents amounts that are constrained by the Town's intent to use these resources for a specific purpose. This fund balance classification includes surplus set aside to be used in the subsequent year's budget.

Unassigned - Represents amounts that are available to be spent in future periods, general stabilization fund, and deficit funds.

Following is a breakdown of the Town's fund balances at June 30, 2018:

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable			
Nonexpendable trust funds	\$ -	\$ 344,993	\$ 344,993
Total Nonexpendable	-	344,993	344,993
Restricted			
Special revenue funds	-	324,035	324,035
Expendable trust funds	-	619,588	619,588
Total Restricted	-	943,623	943,623
Committed			
Special articles			-
General government	106,719	-	106,719
Public safety	1,604	-	1,604
Education	42,268	-	42,268
Public works	84,665	-	84,665
Culture and recreation	24,518	-	24,518
Capital stabilization fund *	462,703		462,703
Total Committed	722,477	-	722,477
Assigned			
Reserve for expenditures	650,590	-	650,590
Total Assigned	650,590	-	650,590
Unassigned			
General fund	340,581	-	340,581
General stabilization fund *	315,103	-	315,103
Deficit funds	-	(21,172)	(21,172)
Total Unassigned	655,684	(21,172)	634,512
Total Fund Balance	\$ 2,028,751	\$ 1,267,444	\$ 3,296,195

* Massachusetts General Law Ch. 40 §5B allows for the establishment of stabilization funds for one or more different purposes. The creation of a fund requires two-thirds vote of the legislative body and must clearly define the purpose of the fund. Any change to the purpose of the fund, along with any additions to or appropriations from the fund, requires a two-thirds vote of the legislative body.

16. **Hampden County Retirement System**

The Town follows the provisions of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions – an amendment of GASB Statement No. 27*, with respect to the employees' retirement funds.

A. **Plan Description**

Substantially all employees of the Town are members of the Worcester Regional Retirement System (the System), a cost sharing, multiple-employer public employee retirement system (PERS). Eligible employees

must participate in the System. The pension plan provides pension benefits, deferred allowances, and death and disability benefits. Chapter 32 of the Massachusetts General Laws establishes the authority of the System, contribution percentages and benefits paid. The System Retirement Board does not have the authority to amend benefit provisions. Additional information is disclosed in the System's annual financial reports publicly available from the System located at Worcester Regional Retirement System at 23 Midstate Drive, Suite 106, Midstate Office Park, Auburn, MA 01501 or from the System's website at: www.worcesterregionalretirement.org.

Participant Retirement Benefits

The System provides for retirement allowance benefits up to a maximum of 80% of a member's highest three-year average annual rate of regular compensation for those hired prior to April 2, 2012 and the highest five-year average annual rate of regular compensation for those first becoming members of the Massachusetts System on or after that date. However, per Chapter 176 of the Acts of 2011, for members who retire on or after April 2, 2012, if in the 5 years of creditable service immediately preceding retirement, the difference in the annual rate of regular compensation between any 2 consecutive years exceeds 100 percent, the normal yearly amount of the retirement allowance shall be based on the average annual rate of regular compensation received by the member during the period of 5 consecutive years preceding retirement. Benefit payments are based upon a member's age, length of creditable service, level of compensation and group classification.

If a participant was a member prior to April 1, 2012, a retirement allowance may be received at any age, upon attaining 20 years of service. The plan also provides for retirement at age 55 if the participant was a member prior to January 1, 1978, with no minimum vesting requirements. If the participant was a member on or after January 1, 1978 and a member of Groups 1 or 2, then a retirement allowance may be received if the participant (1) has at least 10 years of creditable service, (2) is age 55, (3) voluntarily left Town employment on or after that date, and (4) left accumulated annuity deductions in the fund. Members of Group 4, have no minimum vesting requirements, however, must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A participant who became a member on or after April 2, 2012 is eligible for a retirement allowance upon 10 years creditable service and reaching ages 60 or 55 for Groups 1 and 2, respectively. Participants in Group 4 must be at least age 55. Groups 2 and 4 require that participants perform the duties of the Group position for at least 12 months immediately prior to retirement.

A retirement allowance consists of two parts: an annuity and a pension. A member's accumulated total deductions and a portion of the interest they generate constitute the annuity. The difference between the total retirement allowance and the annuity is the pension. The average retirement benefit is approximately 80-85% pension and 15-20% annuity.

Participant Refunds

Employees who resign from service and who are not eligible to receive a retirement allowance are entitled to request a refund of their accumulated total deductions. Members voluntarily withdrawing with at least 10 years of service or involuntarily withdrawing, receive 100% of the regular interest that has accrued on those accumulated total deductions. Members voluntarily withdrawing with less than 10 years of service get credited interest each year at a rate of 3%.

Participants Contributions

Participants contribute a set percentage of their gross regular compensation annually. Employee contribution percentages are specified in Chapter 32 of the Massachusetts General Laws. The employee's individual contribution percentage is determined by their date of entry into the system. In addition, all employees hired on or after January 1, 1979 contribute an additional 2% on all gross regular compensation over the rate of \$30,000 per year. The percentages are as follows:

Before January 1, 1975	5%
January 1, 1975 – December 31, 1983	7%
January 1, 1984 – June 30, 1996	8%
Beginning July 1, 1996	9%

For those members entering a Massachusetts System on or after April 2, 2012 in Group 1, the contribution rate will be reduced to 6% when at least 30 years of creditable service has been attained.

Employer Contributions

Employers are required to contribute at actuarially determined rates as accepted by the Public Employee Retirement Administration Commission (PERAC).

The Town's contribution to the System for the year ended June 30, 2018 was \$673,313, which was equal to its annual required contribution.

B. Summary of Significant Accounting Policies

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and

pension expense, information about the fiduciary net position of the System and additions to/deductions from System's fiduciary net position have been determined on the same basis as they are reported by System. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with benefit terms. Investments are reported at fair value.

C. Pension Liabilities, Pension Expense, and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to Pensions

At June 30, 2018, the Town reported a liability of approximately \$10.9 million for its proportionate share of the net pension liability. The net pension liability was measured as of December 31, 2017, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of January 1, 2016. The Town's proportion of the net pension liability was based on a projection of the Town's long-term share of contributions to the pension plan relative to the projected contributions of all participating employers, actuarially determined. At June 30, 2018, the Town's proportion was 1.33 percent.

For the year ended June 30, 2018, the Town recognized pension expense of \$1,363,192. In addition, the Town reported deferred outflows of resources and deferred (inflows) of resources related to pensions from the following sources:

	Deferred Outflows of <u>Resources</u>	Deferred (Inflows) of <u>Resources</u>
Net difference between projected and actual earnings on pension plan investments	\$ -	\$ (338,328)
Differences between expected and actual experience	72,183	-
Changes of assumptions	1,034,040	-
Changes in proportion and differences between contributions and proportionate share of contributions	<u>68,550</u>	<u>-</u>
Total	<u>\$ 1,174,773</u>	<u>\$ (338,328)</u>

The employer's contributions to the pension plan was made prior to the measurement date of December 31, 2017; no contribution was made subsequent to the measurement date.

Amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended June 30:

2019	\$ 236,240
2020	235,051
2021	122,366
2022	153,264
2023	<u>89,524</u>
Total	<u>\$ 836,445</u>

D. Actuarial Assumptions

The total pension liability in the January 1, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement:

Actuarial cost method	Entry age normal
<u>Actuarial assumptions:</u>	
Investment rate of return	7.75%, net of pension plan investment expense, including inflation
Projected salary increases	Group 1: 4.25% - 6%, based on service Group 4: 4.75% - 7%, based on service
Remaining amortization period	19 years, except for ERI for 2002 and 2003 (12 years) and 2010 (6 years)
Inflation	3% per year
Post-retirement COLA	3% on the first \$16,000

Mortality rates were based on the RP-2000 Mortality Table (base year 2009) with full generational mortality improvement using Scale BB. For disabled lives, the mortality rates were based on the RP-2000 Mortality Table (base year 2012) with full generational mortality improvement using Scale BB.

The actuarial assumptions used in the January 1, 2016 valuation were based on the results of the most recent actuarial experience study, which was for the period ending December 31, 2015.

The long-term expected rate of return on pension plan investments was selected from a best estimate range determined using the building block approach. Under this method, an expected future real return range (expected returns, net of pension plan investment expense and inflation) is calculated separately for each asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return net of investment expenses by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major class are summarized in the following table:

<u>Asset Class</u>	<u>Target Asset Allocation</u>	<u>Long-term Expected Real Rate of Return</u>
Global equity	40.0%	4.91%
Fixed income	22.0%	2.04%
Private equity	11.0%	6.50%
Real estate	10.0%	3.70%
Timber / natural resources	4.0%	3.25%
Hedge Funds	13.0%	3.40%
Total	<u>100.0%</u>	

E. Discount Rate

The discount rate used to measure the total pension liability was 7.75%. The projection of cash flows used to determine the discount rate assumed that the plan member contributions will be made at the current contribution rate and that employer contributions will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments to current active and inactive plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

F. Sensitivity of the Proportionate Share of the Net Pension Liability to Changes in the Discount Rate

The following presents the Town's proportionate share of the net pension liability calculated using the discount rate of 7.75 percent, as well as what the Town's proportionate share of the net pension liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current rate:

1% Decrease <u>(6.75%)</u>	Current Discount Rate <u>(7.75%)</u>	1% Increase <u>(8.75%)</u>
\$13,224,671	\$10,850,701	\$8,845,869

G. Pension Plan Fiduciary Net Position

Detailed information about the pension plan's fiduciary net position is available in the separately issued System financial report.

17. **Other Post-Employment Benefits (GASB 74 and GASB 75)**

GASB Statement No. 74, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans (OPEB)*, replaces the requirements of Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans*. This applies if a trust fund has been established to fund future OPEB costs. The Town has established an OPEB Trust Fund to provide funding for future employee health care costs.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, replaces the requirements of Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures. This Statement identifies the methods and assumptions that are required to be used to project benefit payments, discounted projected benefit payments to their actuarial present value, and attribute that present value to periods of employee service.

All the following OPEB disclosures are based on a measurement date of June 30, 2018.

A. General Information about the OPEB Plan

Plan Description

The Town provides post-employment healthcare benefits for retired employees through the Town's plan. The Town provides health insurance coverage through Blue Cross and Blue Shield. The benefits, benefit levels, employee contributions, and employer contributions are governed by Chapter 32 of the Massachusetts General Laws.

Benefits Provided

The Town provides medical, dental, life insurance, and prescription drug insurance to retirees and their covered dependents. All active employees who retire from the Town and meet the eligibility criteria will receive these benefits.

Plan Membership

At June 30, 2018, the following employees were covered by the benefit terms:

Inactive employees or beneficiaries currently receiving benefit payments	6
Active employees	53
Total	<u>59</u>

B. Investments

The OPEB trust fund assets consist of certificates of deposit, corporate bonds, equity investments, federal securities and mutual funds. Per the Town's investment policy, the OPEB funds investments must be consistent with the prudent person standard set forth in Massachusetts General Law Chapter 203C for private trust funds.

Rate of return. For the year ended June 30, 2018, the annual money-weighted rate of return on investments, net of investment expense, was 5.37 percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

C. Actuarial Assumptions and Other Inputs

The net OPEB liability was determined by an actuarial valuation as of July 1, 2016, using the following actuarial assumptions, applied to all periods included in the measurement, unless otherwise specified:

Inflation	2.6%
Salary increases	4%, average, including inflation
Investment rate of return	7.5%, net of OPEB plan investment expense
Municipal bond rate and discount rate	3.87%, based on the Bond Buyers 20 year Bond Index
Healthcare cost trend rates	8.0% for 2018, fluctuating 0.5% to an ultimate rate of 5.0% as of 2024 and later years
Retirees' share of benefit-related costs	50%

Post-retirement mortality rates were based on the RP-2000 Healthy Annuitant Mortality Table with a base year of 2009, projected with generational mortality improvement using a scale BB.

Pre-retirement mortality rates were based on the RP-2000 Employees Mortality Table with a base year of 2009, projected with generational mortality improvement using a scale BB.

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study as of July 1, 2016.

D. Discount Rate

The discount rate used to measure the net OPEB liability was 3.87%. The projection of cash flows used to determine the discount rate assumed that contributions from plan members will be made at the current contribution rate.

Based on those assumptions, the OPEB plan fiduciary net position was not projected to be available to make all projected future benefit payments of current plan members. As a result, the discount rate is the municipal bond rate of 3.87% (based on index provided by the Bond Buyer's Bond Index on 20-year municipal bond rate as of June 30, 2018).

E. Net OPEB Liability

The components of the net OPEB liability, measured as of June 30, 2018, were as follows:

Total OPEB liability	\$ 5,545,377
Plan fiduciary net position	<u>(125,705)</u>
Net OPEB liability	<u>\$ 5,419,672</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.27%

F. Changes in the Net OPEB Liability

The following presents the changes in the net OPEB liability:

	Increase (Decrease)		
	Total OPEB Liability (a)	Plan Fiduciary Net Position (b)	Net OPEB Liability (a) - (b)
Balances at beginning of year	\$ 5,296,054	\$ 100,320	\$ 5,195,734
Changes for the year:			
Service cost	426,763	-	426,763
Interest	204,333	-	204,333
Contributions - employer	-	82,133	(82,133)
Changes in assumptions or other inputs	(319,640)	-	(319,640)
Net investment income	-	5,385	(5,385)
Benefit payments	<u>(62,133)</u>	<u>(62,133)</u>	<u>-</u>
Net Changes	<u>249,323</u>	<u>25,385</u>	<u>223,938</u>
Balances at end of year	<u>\$ 5,545,377</u>	<u>\$ 125,705</u>	<u>\$ 5,419,672</u>

Changes of assumptions and other inputs reflect a change in the discount rate from 3.59% in 2017 to 3.87% in 2018.

G. Sensitivity of the Net OPEB Liability to Changes in the Discount Rate

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it were calculated using a discount rate that is one percentage-point lower or one percentage-point higher than the current discount rate:

1% Decrease <u>(2.87%)</u>	Current Discount Rate <u>(3.87%)</u>	1% Increase <u>(4.87%)</u>
\$6,682,480	\$5,419,672	\$4,453,721

H. Sensitivity of the Net OPEB Liability to Changes in the Healthcare Cost Trend Rates

The following presents the net OPEB liability, as well as what the net OPEB liability would be if it as calculated using healthcare cost trend rates that are one percentage-point lower or one percentage-point higher than the current healthcare cost trend rates:

1% Decrease <u>(7.0%)</u>	Current Healthcare Cost Trend Rates <u>(8.0%)</u>	1% Increase <u>(9.0%)</u>
\$4,221,630	\$5,419,672	\$7,151,147

I. OPEB Expense and Deferred Outflows of Resources and Deferred (Inflows) of Resources Related to OPEB

For the year ended June 30, 2018, the Town recognized an OPEB expense of \$588,313. At June 30, 2018, the Town reported deferred outflows and (inflows) of resources related to OPEB from the following sources:

	Deferred Outflows of Resources	Deferred (Inflows) of Resources
Change in assumptions	\$ -	\$ (284,553)
Net difference between projected and actual OPEB investment earnings	<u>2,311</u>	<u>-</u>
Total	<u>\$ 2,311</u>	<u>\$ (284,553)</u>

Amounts reported as deferred outflows and (inflows) of resources related to OPEB will be recognized in OPEB expense as follows:

<u>Year ended June 30:</u>	
2019	\$ (34,509)
2020	(34,509)
2021	(34,509)
2022	(34,510)
2023	(35,087)
Thereafter	<u>(109,118)</u>
Total	<u>\$ (282,242)</u>

18. **Subsequent Events**

Capital Leases

Subsequent to June 30, 2018, the Town has entered into the following lease agreements:

	<u>Amount</u>	<u>Interest Rate</u>	<u>Issue Date</u>	<u>Maturity Date</u>
Volvo wheel loader	\$ 178,753	4.97%	12/21/18	12/21/22
Breathing aparatus equipment	<u>199,000</u>	3.83%	02/15/19	02/15/21
Total	<u>\$ 377,753</u>			

Debt

The Town neglected to make a wire transfer payment for debt service interest of \$235,597 due on July 16, 2018. The Town was notified, and payment was made on July 20, 2018.

19. **Commitments and Contingencies**

Outstanding Legal Issues - There are several pending legal issues in which the Town is involved. The Town's management is of the opinion that the potential future settlement of such claims would not materially affect its financial statements taken as a whole.

Grants - Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount of expenditures which may be

disallowed by the grantor cannot be determined at this time, although the Town expects such amounts, if any, to be immaterial.

20. **Beginning Net Position Restatement**

The beginning (July 1, 2017) net position of the Town has been restated as follows:

		Business-Type Activities	
	Governmental	Water	Sewer
	<u>Activities</u>	<u>Fund</u>	<u>Fund</u>
Net position 06/30/17, as previously reported	\$ 21,267,563	\$ 7,454,049	\$ 12,713,661
Implementation of GASB 75 for OPEB	(2,694,862)	(72,560)	(72,560)
Restatement due from Commonwealth receivable balances	-	62,278	125,501
Restatement for removal of foreclosure receivable balances	(690,330)	-	-
Restate compensated absences balances	<u>213,591</u>	<u>-</u>	<u>-</u>
Net position 06/30/17, as restated	<u>\$ 18,095,962</u>	<u>\$ 7,443,767</u>	<u>\$ 12,766,602</u>

TOWN OF ASHBURNHAM, MASSACHUSETTS
SCHEDULE OF PROPORTIONATE SHARE OF THE NET PENSION LIABILITY (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2018
(Unaudited)
(Amounts expressed in thousands)

Worcester County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Proportion of the Net Pension Liability</u>	<u>Proportionate Share of the Net Pension Liability</u>	<u>Covered Payroll</u>	<u>Proportionate Share of the Net Pension Liability as a Percentage of Covered Payroll</u>	<u>Plan Fiduciary Net Position Percentage of the Total Pension Liability</u>
June 30, 2018	December 31, 2017	1.331%	\$10,851	\$3,253	333.57%	46.40%
June 30, 2017	December 31, 2016	1.244%	\$10,418	\$3,429	303.82%	42.00%
June 30, 2016	December 31, 2015	1.245%	\$8,838	\$3,278	269.62%	44.52%
June 30, 2015	December 31, 2014	1.391%	\$8,280	\$3,152	262.69%	47.94%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF ASHBURNHAM, MASSACHUSETTS
SCHEDULE OF PENSION CONTRIBUTIONS (GASB 68)
REQUIRED SUPPLEMENTARY INFORMATION

JUNE 30, 2018

(Unaudited)

(Amounts expressed in thousands)

Worcester County Retirement System

<u>Fiscal Year</u>	<u>Measurement Date</u>	<u>Contractually Required Contribution</u>	<u>Contributions in Relation to the Contractually Required Contribution</u>	<u>Contribution Deficiency (Excess)</u>	<u>Covered Payroll</u>	<u>Contributions as a Percentage of Covered Payroll</u>
June 30, 2018	December 31, 2017	\$673	\$673	-	\$3,253	20.69%
June 30, 2017	December 31, 2016	\$604	\$604	-	\$3,429	17.61%
June 30, 2016	December 31, 2015	\$560	\$560	-	\$3,278	17.08%
June 30, 2015	December 31, 2014	\$550	\$550	-	\$3,152	17.45%

Schedules are intended to show information for 10 years. Additional years will be displayed as they become available.

See Independent Auditors' Report.

TOWN OF ASHBURNHAM, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULE OF CHANGES IN NET OPEB LIABILITY (GASB 74 AND 75)
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
(Amounts expressed in thousands)

	<u>2018</u>	<u>2017</u>
Total OPEB liability		
Service cost	\$ 427	\$ 507
Interest on unfunded liability - time value of money	204	172
Changes in assumptions	(320)	(872)
Benefit payments, including refunds of member contributions	<u>(62)</u>	<u>(48)</u>
Net change in total OPEB liability	249	(241)
Total OPEB liability - beginning	<u>5,296</u>	<u>5,537</u>
Total OPEB liability - ending (a)	<u><u>\$ 5,545</u></u>	<u><u>\$ 5,296</u></u>
Plan fiduciary net position		
Contributions - employer	\$ 82	\$ 98
Net investment income	5	5
Benefit payments, including refunds of member contributions	<u>(62)</u>	<u>(48)</u>
Net change in plan fiduciary net position	25	55
Plan fiduciary net position - beginning	<u>100</u>	<u>45</u>
Plan fiduciary net position - ending (b)	<u><u>\$ 125</u></u>	<u><u>\$ 100</u></u>
Net OPEB liability - ending (a-b)	<u><u>\$ 5,420</u></u>	<u><u>\$ 5,196</u></u>

This schedule does not include the electric enterprise fund.

*Schedule is intended to show information for 10 years.
Additional years will be displayed as they become available.*

See notes to the Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

TOWN OF ASHBURNHAM, MASSACHUSETTS
OTHER POST-EMPLOYMENT BENEFITS (OPEB)
SCHEDULES OF NET OPEB LIABILITY, CONTRIBUTIONS,
AND INVESTMENT RETURNS (GASB 74 AND 75)
REQUIRED SUPPLEMENTARY INFORMATION
(Unaudited)
(Amounts expressed in thousands)

Schedule of Net OPEB Liability	<u>2018</u>	<u>2017</u>
Total OPEB liability	\$ 5,545	\$ 5,296
Plan fiduciary net position	<u>(125)</u>	<u>(100)</u>
Net OPEB liability	<u>\$ 5,420</u>	<u>\$ 5,196</u>
Plan fiduciary net position as a percentage of the total OPEB liability	2.25%	1.89%
Covered employee payroll	\$ 2,882	\$ 2,742
Participating employer net OPEB liability as a percentage of covered employee payroll	188.06%	189.50%
 Schedule of Contributions	 <u>2018</u>	 <u>2017</u>
Actuarially determined contribution	\$ 728	\$ 685
Contributions in relation to the actuarially determined contribution	<u>(82)</u>	<u>(98)</u>
Contribution deficiency	<u>\$ 646</u>	<u>\$ 587</u>
Covered employee payroll	\$ 2,882	\$ 2,742
Contributions as a percentage of covered employee payroll	2.85%	3.57%
 Schedule of Investment Returns	 <u>2018</u>	 <u>2017</u>
Annual money weighted rate of return, net of investment expense	5.37%	N/A

This schedule does not include the electric enterprise fund.

*Schedules are intended to show information for 10 years.
Additional years will be displayed as they become available.*

See notes to Town's financial statements for summary of significant actuarial methods and assumptions.

See Independent Auditors' Report.

Additional Offices:

Nashua, NH
Manchester, NH
Andover, MA
Ellsworth, ME

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

Independent Auditors' Report

To the Select Board
Town of Ashburnham, Massachusetts

We have audited the Town of Ashburnham, Massachusetts in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund (except for the Electric Enterprise Fund), and the aggregate remaining fund information (except for the Electric Other Post-Employment Benefits Trust Fund) of the Town, as of and for the year ended June 30, 2018, and the related notes to the financial statements, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated September 12, 2019.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Town's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Town's internal control. Accordingly, we do not express an opinion on the effectiveness of the Town's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings and questioned costs, we identified certain deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying schedule of findings as items 2018-001, 2018-002, and 2018-003 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying schedule of findings as items 2018-004, 2018-005, 2018-006, and 2018-007 to be significant deficiencies

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance or other matter that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings as item 2018-004.

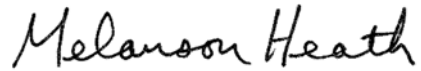
Town's Response to Findings

The Town's response to the findings identified in our audit is described in the accompanying schedule of findings and questioned costs. The Town's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing, and not to provide an opinion

on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink that reads "Melanson Heath". The signature is written in a cursive, flowing style.

September 12, 2019

FINANCIAL STATEMENT FINDINGS

2018-001 IMPROVE PROCEDURES IN THE TREASURER'S OFFICE (MATERIAL WEAKNESS)

During our review of the processes and procedures in the Treasurer's office, we noted the following issues:

Improve Timeliness and Accuracy of Cash Reconciliations

The reconciliation of monthly bank statement balances to cash book balances and the general ledger did not occur during fiscal year 2018 and were not completed until April 2019. In order to expedite the reconciliation process, an individual from the Town's contracted accounting firm prepared the cash book and completed the monthly bank reconciliations and reconciliations to the general ledger. As a result, a lack of segregation of duties exists with respect to these functions.

Timely and independent reconciliation of Treasurer's cash is a critical internal control procedure necessary to ensure that the Town's cash balances are properly reported and controlled. The lack of timely bank statement reconciliations makes it impossible to verify that interim general ledger cash balances agree with the Treasurer's records. Without this measure of checks and balances, there is an increased risk that errors or irregularities could occur and go undetected.

In addition, during our review of the reconciliation documentation provided for June 30, 2018, we found that none of the following year-end balances agreed with one another:

Treasurer's total cash book balance	\$6,884,784
Treasurer's quarterly cash report balance	\$6,849,024
General ledger total cash balance	\$6,918,542

We recommend the Treasurer's Office implement measures to ensure that timely, accurate, and independent reconciliation of cash balances occurs monthly throughout the year. These reconciliations should be documented and signed by the preparer and a reviewer in order to improve documentation and oversight.

Secure Check Stock and Limit Access of Treasurer's Signature in Software

For the majority of fiscal year 2018, the contracted accounting firm retained the Treasurer's accounts payable check stock at a separate location and would print the checks from the software system embedded with the Treasurer's signature. Checks were then sealed in envelopes and dropped off at Town Hall for mailing.

We recommend blank check stock be held by the Treasurer in a secure location. We also recommend that the authorization levels in the software system be reviewed to ensure that only the Treasurer and Assistant Treasurer have the ability to print checks.

Maintain a Log of Checks Used

The Treasurer's Office currently does not maintain a log of issued or voided checks. The purpose of such a log is to maintain the sequential integrity of checks used. A log which lists all checks issued and voided provides additional assurance that all checks are accounted for and reduces the risk that checks will be used inappropriately without being detected.

We recommend the Treasurer's Office establish a log to track all checks issued and voided. This will provide additional control over cash disbursements.

Consolidate Bank Accounts

The Town maintains approximately twenty-five bank accounts (not including the Light Department accounts). While some Town activities are required to be maintained in a separate bank account in order to separately track funds or allocate interest, the rest are not. The maintenance, monitoring and reconciling of so many accounts is a time-consuming process.

We recommend the Town consider closing accounts that are not required to be maintained separately and consolidate like accounts into one. This would help streamline the reconciliation process and improve efficiency.

Periodically Send Letters to Local Banks

Occasionally, quasi-governmental or nonprofit entities (school scholarship, "friends of" or volunteer organizations) use a town's identification number (EIN) to establish bank accounts without the knowledge or approval of the town's government. The existence of these accounts increases the risk that inappropriate activity is being conducted under the Town's EIN umbrella.

We recommend the Treasurer periodically request local banks to report all bank accounts established using the Town's EIN. Any accounts unduly authorized should be reviewed for inappropriate transactions and either formally authorized or closed.

Town's Response:

Cash reconciliations will take place once a month between the Treasurer and the Accountant. When the review is completed and figures tie out, a signed copy by the Treasurer and the Accountant of the reconciliation will be submitted to the Town Administrator.

Vendor check stock is kept in the Treasurer's office in a secure location, where only the Treasurer and the Assistant Treasurer have access. The

authorization to the Treasurer's signature in the current software is limited to only the Treasurer's and Assistant Treasurer's program user profiles.

Effective immediately, an excel workbook will be used to track checks issued and checks voided. This will be kept by the Treasurer and updated weekly.

Account consolidation will begin once confirmation is received which accounts cannot be comingled.

The Treasurer will annually send a letter to local banks requesting a report of any and all bank accounts established using the Town's EIN. After review, if unauthorized accounts were opened, transactions in such accounts will be reviewed and either the account will be formally authorized or closed.

2018-002 IMPROVE PROCEDURES AND CONTROLS IN THE COLLECTOR'S OFFICE (MATERIAL WEAKNESS)

During our review of procedures and controls in the Collector's Office, we found the following areas where improvements should be made:

Improve Documentation of Cash Receipts

In our testing of receipt procedures in the Collector's Office, we noted that tax receipt stubs are not always retained and receipts in cash (currency) are not always documented on the tax receipt stubs. Because of the increased exposure in handling cash, it is very important that a clear audit trail exist from the time cash is accepted at the counter, to the daily bank deposit.

We recommend the Collector's Office retain a tax receipt stub for every transaction and always include a notation on the tax receipt stub of those payments that were made by cash. In addition, the daily cash out documentation should provide a breakdown of currency and check receipts and the amount of currency deposited in the bank should be proven to the receipt stubs and daily cash out reports. This will improve controls over cash receipts and will minimize the risk of irregularities occurring and going undetected.

Improve Segregation of Duties Over Daily Cash Out Process

The Collector's Office currently performs a cash out at the end of each day before deposits are made; however, we noted the following issues:

- The cash out and reconciliation to taxpayer accounts is performed by the same person.
- Since a tax receipt stub is not retained for all transactions, and not all are properly marked cash or check, there is no reconciliation between the tax receipt stubs and the actual cash versus check collected. A reconciliation occurs between the postings in the Collector's software and the receipts in

the drawer, but the report from the software does not delineate cash versus check.

- A day sheet summarizing the cash and checks collected is prepared as a part of the cash out process, but it is not retained with the daily cash out work.
- The turnover form is not signed by a preparer or reviewer.

We recommend that the daily cash out process be split between the two employees in the Collector's office; one person should reconcile the tax receipt stubs to the taxpayer account postings and the other should reconcile the cash and checks collected to the tax receipt stubs. They should then be reconciled to each other and both sign the turnover form. This will provide additional oversight and control over the Collectors Office's daily receipts.

Town's Response:

When processing payments in the Collectors software, a receipt is printed when the payment stub is not present. Such receipt has detail on it that includes how the payment was made, either cash or check. However, even though it is entered how the payment is made, the software does not provide a breakdown of currency, only a total. When the payment stub is present, the collector notates on the payment stub how the payment is made, either cash or check. A turnover sheet of collector receipts is completed during the batch close out process. The collector lists each check and all cash. When the totals of the batch and the turnover form match, the batch is posted and 2 copies of both the batch detail report and the turnover form are printed. Both the Collector and the Treasurer sign the turnover. One copy gets wrapped around the payment stubs and kept in the Collectors daily work drawer and the other copy goes to the Treasurer for cashbook receipt documentation.

2018-003 IMPROVE CONTROLS OVER RECEIVABLES AND ESTABLISH A MORE AGGRESSIVE TAX COLLECTION PROCESS (MATERIAL WEAKNESS)

During our review and testing of receivable balances and activity, we found the following areas where improvements should be made:

Improve Timeliness and Accuracy of Receivable Reconciliations

Receivable balances were not reconciled for all of fiscal year 2018 until April 2019. As a result, there is an increased risk that errors or irregularities could occur and go undetected. In addition, when comparing the general ledger balance for motor vehicle excise 2017 to the Collector's detail report at June 30, 2018, we noted a variance of approximately \$34,000 (Collector lower).

We recommend the Town establish procedures to reconcile receivable balances between the general ledger and Collector on a monthly basis and investigate and correct any differences. These monthly reconciliations should

be documented and signed by the Collector and Town Accountant. This will improve documented control over Town receivables and will reduce the likelihood that errors or irregularities could occur in the Collector's Office and go undetected.

Maintain Control Logs

Control logs are not maintained for receivable balances. As an added control and to simplify the reconciliation process, we recommend the Collector's Office implement an automated spreadsheet log to track all activity affecting the various receivable accounts. On a monthly basis, this log should be reconciled to detailed balance due report totals and to the general ledger balances. All differences should be identified and corrected immediately.

Improve Procedures Over Tax Title

At June 30, 2018, the Town's real estate receivable balances date back several years and total approximately \$630,000 for levy years 2016-2018 primarily because the Town did not lien any properties in fiscal year 2018. In addition, the Town's tax lien receivable balance of \$415,000 is already fairly large and will be much larger once accounts are properly liened. Not liening properties in a timely manner can result in lost revenue from the increased interest rates and also increases the risk of losing a secured interest in the property in the event the property is sold or the taxpayer files for bankruptcy.

We recommend the Town establish a policy to be more aggressive in pursuing delinquent accounts. This should include following a specific schedule for liening and subsequent liening of properties and could include collection efforts such as investigating land court/foreclosure procedures, using an outside collection agency, executing payment plans in accordance with State laws, and publicizing the tax title outstanding list in local papers.

Improve Procedures Over Ambulance Receivables

In our review of the ambulance receivable account in the general ledger, we noted that no activity was posted for all of fiscal year 2018. In addition, the ambulance receivable was not reconciled at year end with departmental records, resulting in a variance of approximately \$59,000 (general ledger higher).

We recommend the Town establish procedures to record receivable activity in the general ledger and regularly reconcile receivable activity and ending balances to departmental records. This will provide additional assurance that general ledger balances are accurate and reduce the risk that errors or omissions have occurred without detection.

Town's Response:

Receivable reconciliations will take place once a month between the Collector and the Accountant. When the review is completed and figures tie out, a signed copy by the Collector and the Accountant of the reconciliation will be

submitted to the Town Administrator. The Collector will maintain a daily control log to track all activity for each receivable account.

Although not in fiscal year 2018, the Collector did perform two tax takings in fiscal year 2019. The first taking was on 09/24/2018 which included balances from fiscal 2015, 2016, and 2017. The second taking was on 12/10/2018 which included balances from fiscal 2018.

To date, the Treasurer has entered into payment agreements with 19 property owners. The Treasurer also held a tax lien auction. At this time, the Treasurer has not investigated land court or foreclosure procedures, however it is something that could possibly begin in fiscal year 2020.

2018-004 IMPROVE CONTROLS OVER BUDGET PROCESS (SIGNIFICANT DEFICIENCY/COMPLIANCE FINDING)

In our review of the Town's budget process, including documentation, vote authorizations and the tax recap, we noted the following issues:

Avoid Overexpended Appropriations

Massachusetts General Laws prohibit municipal organizations from overexpending their appropriations. In fiscal year 2018, the Town overexpended the following categories:

Public Works	\$ (88,212)
Health and Human Services	(969)
Culture and Recreation	(943)

We recommend the Town monitor the general fund appropriation balances during the year and take appropriate action to ensure budgets are not overexpended.

Improve Tax Recap Preparation

The tax recap is the document used in Massachusetts to summarize all budgeted sources and uses of funds in order to establish property tax rates. Massachusetts General Laws are very specific regarding which funds are considered "available for appropriation" as well as when they become or cease to be available. As a result, it is imperative that the tax recap be constructed accurately and that all budget votes be in accordance with Massachusetts General Laws.

In our review of the Town's fiscal year 2018 budget and tax recap preparation process, we found a variance between the amounts summarized from Annual Town Meeting votes and the appropriations noted on the tax recap of approximately \$150,000 (tax recap lower). As a result, there appears to be a General Fund revenue shortfall of this amount.

We recommend the Town establish procedures to ensure that key staff are adequately trained in the tax recap preparation process and that the departments work together to ensure that omissions or errors do not occur in the future.

Ensure Expenditure Budgets Agree with Annual Town Meeting Votes

Budgeted expenditure amounts in the Water and Sewer enterprise funds were input into the general ledger based on preliminary budgeted amounts which did not agree with the amounts proposed and voted at Annual Town Meeting. As a result, budgeted expenditure amounts per the Water enterprise fund were approximately \$19,000 higher than the approved amount voted by Annual Town Meeting, while the budgeted expenditure amounts per the Sewer enterprise fund were approximately \$(8,600) lower.

We recommend the Town implement procedures to ensure that all budgeted expenditures recorded in the general ledger agree with the Annual Town Meeting votes.

Town's Response:

In fiscal year 2018, there was a significant amount of turnover in the financial offices and a systems conversion that lead to incorrect Fiscal 2017 balances being carried forward. This lead to over expended appropriations primarily in special town meeting articles that occurred over the summer of 2017. Additionally, up to five different people worked on parts of the tax rate filing over the fall of 2017, and there was confusion over how to handle some of the votes from Town Meeting as reflected in the Town Clerk official minutes. In fiscal year 2019 and moving forward the recap is being completed by personnel who have held the positions, and who are working together to complete the recap with the assistance of the Town Clerk. The Town Clerk minutes are being independently reviewed for clarity on votes and the intention of the Town Meeting body when information is being entered into the Department of Revenue system.

2018-005 IMPROVE CONTROLS OVER TRUST FUND BALANCES (SIGNIFICANT DEFICIENCY)

During our review and testing of trust fund balances, we noted the following issues:

Improve Timeliness of Trust Fund Cash Transfers

The Town's trust fund activity appears to be accurately accounted for in the general ledger; however, the ending general ledger balances do not agree with the Treasurer's trust fund cash balances. This is the result of transfers authorized at Town Meeting not accounted for in the Treasurer's bank accounts. As a result, as of June 30, 2018, the Treasurer's stabilization fund balance was \$171,000 more than it should have been and the Treasurer's OPEB balance was \$(20,000) less than it should have been.

We recommend that the Treasurer's trust fund cash transfers be made in a timely manner and that trust fund cash balances be reconciled between the Town's general ledger and Treasurer's records on a quarterly basis.

Maintain Trust Funds at Market Value

The Town presently reports trust fund investments on a cost basis. Generally Accepted Accounting Principles (GAAP) require governmental entities to report investments at fair market value.

We recommend the Town begin to report trust fund investments at fair market value. Implementation of this recommendation will help ensure compliance with GAAP and help simplify the reconciliation process.

Town's Response:

When it was discovered by the Treasurer that the trust transfers authorized at ATM were not completed, the transfers were initiated immediately. Trust transfers requested continue to be processed as soon as the Treasurer receives the authorization to do so.

Effective fiscal year 2020, the Treasurer will report trust fund investment balances at fair market value.

2018-006 IMPROVE DEPARTMENTAL RECEIPT PROCEDURES (SIGNIFICANT DEFICIENCY)

During our review of the Town's departmental receipt process, we noted the following areas where improvements could be made:

Formalize Departmental Receipt Policies

The Town currently does not have formal written policies and procedures for departments to follow for collecting and remitting departmental receipts. In addition, during our review of departmental turnover forms, we found that most of the forms did not break out cash versus checks.

We recommend the Town establish formal written departmental receipt policies and procedures. These policies and procedures should address, at a minimum, the following: the uniform format of receipt records and receipts logs, establishment of audit trails and the tracking of cash versus check, frequency of remittances to the Treasurer, and overnight security.

We also recommend that the departmental receipt form be signed by the preparer and reviewer within the department, and that departments provide a copy of the form to the Town Accountant in order to reconcile with the Treasurer's records. This will provide a necessary measure of checks and balances between departments.

Provide General Ledger Detail to Departments

Numerous departments receive fees and record them in internal logs. These receipts are then remitted to the Treasurer, where they are deposited and communicated to the Town Accountant for inclusion in the general ledger. Per inquiry, the departments are not advised of the actual amounts recorded in the general ledger and, therefore, are unable to verify that the amounts remitted to the Treasurer were recorded accurately in the general ledger.

We recommend the Town Accountant provide each department with a copy of the monthly detailed revenue report. This would enable the departments to reconcile this report to their internal logs to ensure that all amounts remitted to the Treasurer were properly recorded in the general ledger.

Establish an Internal Audit Function

The Town should consider establishing an internal audit function for departmental receipts to properly monitor operations and assess the risk of misstatement in Town departments caused by errors, irregularities or omissions.

This will result in improved oversight and could reduce the risk of errors or irregularities from occurring and going undetected.

Town's Response:

The Treasurer has implemented a policy and procedure for departments to follow for collecting and remitting receipts. However, it is not formally written. The Treasurer will create the policy document and provide each department with a copy.

Two employees from the Treasurer's office will reconcile the department turnovers prior to funds being deposited to the bank. One employee will prepare the turnover receipts and breakdown of cash and checks sheet, the other employee will review to make sure the turnover receipts match the amount of the deposit from the breakdown sheet. Each employee will sign the breakdown sheet and it will be kept with the receipts.

2018-007 IMPROVE INTERNAL CONTROLS OVER VENDOR DISBURSEMENTS (SIGNIFICANT DEFICIENCY)

During our testing of internal controls over 25 vendor disbursements, we noted the following issues:

- Five instances where a bills payable schedule was approved using a rubber stamp. The rubber stamps are usually controlled by a person other than the signatory, thus bypassing an important internal control.

We recommend the Town discontinue the use of rubber stamps. This will help ensure that internal controls over the approval process is followed.

- One instance where an invoice did not have documented approval, nor was it listed on a departmental bills payable schedule. Documentation of authorization and invoice review procedures are integral parts of good internal controls and provide assurance that the Town's expenditures are legitimate and accurate.

We recommend all departmental vendor bills be properly authorized before processing on a Town warrant. This will improve controls over disbursements.

When cash was being reconciled in May 2019, the Town discovered that a Water department debt payment of approximately \$60,000 that was automatically withdrawn from the Town's bank account in November 2017 was not put on a warrant. When it was subsequently put on a warrant, the expense was posted incorrectly to a general fund account. This error was not discovered until the audit in July 2019.

We recommend the Town closely review the accounts charged to ensure that all invoices are properly coded. We also recommend the Town review the actual expenditures compared to the budget as this misclassification would have been apparent had that control been implemented.

Town's Response:

The use of departmental stamps for signature of the department head is a long-standing practice, was not brought up in previous audits. Management agrees with the comment, and the two departments who were using the stamp has discontinued the practice. The accounts payable process workflow has been updated to specifically look for and test for original signatures on the payment on invoices.